

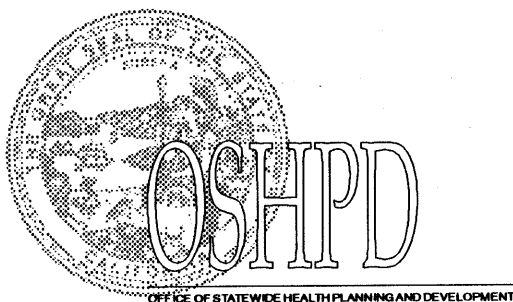
Cal-Mortgage State Plan

California Health Facility Construction Loan Insurance Program



December 1995

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Pete Wilson
Governor
State of California

Sandra R. Smoley, R.N.
Secretary
Health and Welfare Agency

David Werdegarr, M.D., M.P.H.
Director
Office of Statewide Health Planning and Development

Dennis T. Fenwick, J.D.
Deputy Director
Cal-Mortgage Loan Insurance Division

THE CAL-MORTGAGE STATE PLAN
December 1995

PRODUCED BY
OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT

DAVID WERDEGAR, MD, MPH
DIRECTOR

CAL-MORTGAGE LOAN INSURANCE DIVISION
DENNIS T. FENWICK, J.D.
DEPUTY DIRECTOR

TACIA CARROLL, PROJECT OFFICER
STEPHEN BECKMAN, PROJECT OFFICER
LEE JENTZEN, EXECUTIVE SECRETARY
NANCY BUCKLEY-KELLER, STAFF SERVICES ANALYST

LISA SIMONSON, PH.D.
HEALTH POLICY AND PLANNING DIVISION

LEGAL OFFICE
JOHN W. ROSSKOPF
CHIEF COUNSEL

APPRECIATION TO ALL THOSE WHO HAVE
WORKED ON THIS PROJECT

COVER
SHELL CULP



CAL-MORTGAGE STATE PLAN
DECEMBER 1995

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**OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT
CAL-MORTGAGE LOAN INSURANCE DIVISION**

**CAL-MORTGAGE STATE PLAN
DECEMBER 1995**

INTRODUCTION

The Cal-Mortgage Loan Insurance Division (Cal-Mortgage) of the Office of Statewide Health Planning and Development (OSHPD) of the State of California completed its first Cal-Mortgage State Plan in 1992 (1992 Plan). The 1992 Plan was required by Health and Safety Code Section 129020¹. Though Section 129020 has no requirement for a second Cal-Mortgage State Plan, OSHPD believes that, with the continuing major changes in the health care industry and the statutory limit on the amount of debt the Cal-Mortgage Loan Insurance Program can insure, it is prudent to update the 1992 Plan.

The Cal-Mortgage Loan Insurance Program is a discretionary program. Its mere existence creates no entitlement. OSHPD is not required to provide loan insurance to all applicants meeting eligibility and other minimum program requirements. The Plan presents the policy priorities of the Program and guides the operation of the Program on a non-regulatory basis. It provides the basis upon which OSHPD can assess projects which apply for loan insurance.

In this 1995 Cal-Mortgage State Plan (1995 Plan), it is the intent of OSHPD to focus the Program on the priority needs of California's health care delivery system, particularly to improve access to needed health care services.

¹ Unless otherwise stated, all references to "Section" or "Sections" refer to the California Health and Safety Code.

I. HISTORY OF THE CAL-MORTGAGE LOAN INSURANCE PROGRAM

A. First Twenty Years

The Cal-Mortgage Loan Insurance Program (Program) for non-profit health facilities was authorized by an initiative vote of the people in 1968.²

The Program was modeled after the federal home mortgage programs. Under the Program, non-profit health facilities can borrow money for capital needs from long-term lenders with loan insurance from OSHPD guaranteed by the "full faith and credit" of the State of California. This guarantee permits the borrowers to obtain low interest rates similar to the rates available to the State and, more often than not, permits access to lower tax-exempt bond interest rates.

Article 16, Section 4 of the State Constitution states in part:

"The Legislature shall have the power to insure or guarantee loans made by private or public lenders to nonprofit corporations and public agencies, the proceeds of which are to be used for the construction, expansion, enlargement, improvement, renovation or repair of any public or nonprofit hospital, health facility, or extended care facility, facility for the treatment of mental illness, or all of them, including any outpatient facility and any other facility useful and convenient in the operation of the hospital and any original equipment for any such hospital or facility, or both."

Legislation enabling the Program was passed by the Legislature in 1969.³ The Legislature also established the Health Facility Construction Loan Insurance Fund⁴ (HFCLIF). The HFCLIF is used as a depository of application fees, certification and inspection fees, and annual insurance premiums. The HFCLIF is invested in the California State Pooled Money Investment Account Portfolio managed by the State Treasurer, and accrues interest equivalent to the rate earned by other funds in the State Treasury. The HFCLIF may be used to pay administrative costs of the Program and shortfalls resulting from defaults by insured borrowers. It may not be used for non-Program purposes.⁵

The validity of the Program was tested before the California Supreme Court, which ruled in 1971 that both the Constitutional amendment and the enabling legislation creating the Program were constitutional.⁶ OSHPD insured its first loan, with the full faith and credit of the State guaranteeing the loan, in 1972.

² This successful initiative added Article 13, Section 21.5 to the California State Constitution, which has been renumbered to Article 16, Section 4.

³ Chapter 970, Statutes of 1969, Health and Safety Code Sections 129000, et seq.

⁴ Section 129200.

⁵ Section 129215, effective September 1, 1994.

⁶ *Methodist Hospital of Sacramento v. Saylor* (1971) 97 Cal. Rptr.1, 488 P.2d. 161, 5 Cal 3d. 685.

The enabling legislation required OSHPD to develop a state plan and allocate loan insurance based on its findings, so needed health facilities would be constructed.⁷ Since the planning language of Section 129020 was virtually identical to that of Section 129475 (which called for an inventory of existing facilities for Hill-Burton funding distribution purposes), OSHPD originally used the Hill-Burton planning documents as the Cal-Mortgage State Plan.

In 1976, the Certificate of Need laws were passed, which required health facilities to go through an often lengthy review process to assure that community need existed for the project prior to construction.⁸ In 1979, the Cal-Mortgage statutes were amended to conform to the Certificate of Need requirements.⁹ Section 129050 was amended to require that a Certificate of Need or a Certificate of Exemption be obtained as a precondition to eligibility for Cal-Mortgage loan insurance.

During the years the Certificate of Need program was active, Cal-Mortgage statutes were amended to delete the separate planning requirement for Cal-Mortgage.¹⁰ The Certificate of Need program was terminated in 1987.¹¹ Consequently, OSHPD requested the California Health Policy and Data Advisory Commission (CHPDAC) to form a task force to assess the continued need for Cal-Mortgage, believing at the time that the Program may have outlived its usefulness in an emerging era of health facility competition. CHPDAC formed a task force, and held a series of meetings around the State to discuss the Program. This task force concluded that the Cal-Mortgage Program still performed a valuable function. Two major recommendations of the Task Force were: (1) there should be a dollar cap on the available insurance guarantee, that could be reevaluated periodically by the Legislature; and, (2) Cal-Mortgage should be guided by some kind of non-regulatory state plan.

⁷ Section 129020.

⁸ Chapter 854, Statutes of 1976.

⁹ Chapter 1047, Statutes of 1979.

¹⁰ Chapter 1105, Statues of 1983.

¹¹ Chapter 1745, Statutes of 1984; specifically Section 127300.

B. The 1992 Cal-Mortgage State Plan

OSHPD sought legislation to implement these two recommendations. Senate Bill 1293, passed by the Legislature in 1989, established the requirement for Cal-Mortgage to develop a state plan and allocate resources according to that state plan.¹² At the same time, a \$2 billion cap on loan guarantees was established.

During the 1991 legislative session, Senate Bill 579 was passed to raise the cap to \$2.5 billion effective January 1, 1992. By January of 1992, the initial \$2 billion statutory cap had been reached. The legislation also provided that the cap could be raised further to \$3 billion, but only if OSHPD produced the state plan required by Section 129020.

The 1992 Plan was completed in July 1992, approved by the Governor and submitted to the Senate Health and Human Services, Senate Appropriations, Assembly Health, and Assembly Ways and Means Committees. With the completion of the 1992 Plan, the amount OSHPD was authorized to insure was raised to \$3 billion, effective January 1, 1993.

C. Developments Since the 1992 Cal-Mortgage State Plan

1. Changes in Program Portfolio Reflect 1992 Priorities

Since its inception, the Program has grown in size and complexity. The principal amount insured by Cal-Mortgage (insured risk) has grown to over \$2.05 billion (see **Exhibit 1**) and the number of loans insured by OSHPD has grown to 222 (see **Exhibit 2**). While the insured risk increased steadily from January 1990 to January 1993, it has not changed greatly since then. However, the number of insured projects has continued to grow throughout this period, reflecting an increased number of smaller projects.

The 1992 Plan established the priorities listed below. Loan insurance activities since then have reflected those priorities. Of 80 projects insured from July 1992 through July 1995:

- 1) Twenty-eight (28) projects were in medically under-served areas or projects that serve medically under-served populations.
- 2) Ten (10) projects were for public hospitals and disproportionate share hospitals.
- 3) Seventeen (17) projects promoted access to obstetrical and maternal child health care.
- 4) Thirty-five (35) projects were for small facilities, including primary care clinics, substance abuse treatment facilities and group homes.
- 5) Ten (10) projects promoted access to trauma care or, at the very least, access to emergency medical services.

¹² Chapter 898, Statutes of 1989.

- 6) Twenty-one (21) projects provided services to the elderly and/or provided a continuum of care to help keep older people functioning optimally by assuring them an independent living environment to return to when they have recovered from an episode of acute illness.

Exhibit 3 shows the projects that have been insured since completion of the 1992 Plan through July 1995. (Note that although the total number of projects insured during this period was 80, the total of projects listed above exceeds 80, since many projects addressed more than one priority area.)

The insurance of these 80 projects has changed the overall profile of the Cal-Mortgage portfolio. In July of 1992, 38 percent of all insured projects were for hospitals. Of the 80 projects insured from July 1, 1992 to July 31, 1995, only 18 (23 percent) were for hospitals and, of those 18, only 5 (6 percent) were for hospitals not already insured by Cal-Mortgage. The other 13 were for refinancings, renovations, or expansions of hospitals insured by Cal-Mortgage prior to July of 1992.

On the other hand, the proportion of the portfolio related to smaller, community-based projects (primary care clinics, chemical dependency and recovery facilities, group homes, mental health programs, etc.) increased significantly. In July of 1992, 39 percent of all projects were for such community-based programs. Over the following three years, 42 (53 percent) of the projects insured were for community-based programs, 40 of which had not been insured prior to July of 1992.

The 222 projects currently insured by OSHPD are shown grouped by type of facility in **Exhibit 4**.

2. Four Major Loans Defaulted

Since 1992, four loans insured by OSHPD prior to the development of the 1992 Plan defaulted, resulting either in a foreclosure and receivership action being filed by OSHPD or in payments from the HFCLIF. These loans were for the following projects: Community Adult Care Centers of America, Inc. (CACCOA); Triad Healthcare, Inc. (Triad); Los Medanos Health Care Corporation (Los Medanos); and Lytton Gardens Health Care Center, Inc. (Lytton). Two of these borrowers, Triad and Los Medanos, subsequently filed a petition for bankruptcy protection. Three projects - CACCOA, Lytton and Triad - resulted in payments being made from the HFCLIF. A brief summary of these major defaults follows:

CACCOA. In May 1992, OSHPD declared this community care facility in default and, on the same day, directed the bond trustee to accelerate the insured loan. In June 1992, OSHPD paid approximately \$4.5 million from the HFCLIF and assumed the lender's interest. In July 1992, OSHPD instituted legal proceedings to recover these amounts from certain individuals and entities.

Lytton. The second and third payments from the HFCLIF were made by OSHPD in June 1994 and December 1994 as a result of loan default by this skilled nursing facility in the Bay Area. The amounts paid were \$148,000 and \$261,000, respectively. The facility has adopted and is effectively pursuing a business plan to address its financial

problems, including networking with a local hospital and expanding its scope of services. Since December of 1994, Lytton has made its monthly debt service payments and Cal-Mortgage believes that Lytton eventually will be able to repay the \$409,000 to the HFCLIF.

Triad. In 1993, Triad defaulted on an insured loan of \$167,354,203. This was the largest loan in Cal-Mortgage's portfolio and was used to acquire two hospitals in the Los Angeles area. OSHPD filed a complaint for foreclosure in January 1994, and on February 1, 1994, Triad filed a Chapter 11 petition for bankruptcy in the Federal Bankruptcy Court in Los Angeles. Triad exited from bankruptcy on April 3, 1995, and will make debt payments substantially less than the amount originally owed. The shortfall to the holders of the certificates of participation will be paid from the HFCLIF. OSHPD made a payment from the HFCLIF of \$4,936,940 in July 1995. OSHPD has filed complaints in several courts against both individuals and entities to recover its damages.

Los Medanos. In January 1994, this District Hospital defaulted on an \$11 million loan insured by OSHPD and subsequently filed for Chapter 9 bankruptcy in April 1994. Cal-Mortgage anticipates that this default will ultimately be resolved such that the HFCLIF will incur no net loss.

Cal-Mortgage staff are actively involved in the management of these defaulted loans in order to minimize losses to the HFCLIF. In addition, staff monitor all insured projects on an ongoing basis to identify and address problems as they emerge. Reports on the status of the Program are published monthly and are available to the public.

3. Temporary Moratorium on New Projects

Following the Triad default, OSHPD declared a temporary Program moratorium and stopped accepting applications for new loan insurance effective September 3, 1993. This measure was taken in order to assess risk in the Cal-Mortgage portfolio, to have time to react appropriately to the defaulted projects, and to design and implement measures to help prevent defaults in the future.

Review of the Cal-Mortgage portfolio found that OSHPD could continue to meet the requirement that the Program be administered without cost to the State.¹³ As shown in **Exhibit 5**, after accounting for payments required from the HFCLIF for the above defaulted loans, the HFCLIF fund balance will still continue to increase. Accordingly, the moratorium was lifted on May 3, 1994.

From the lifting of the moratorium on May 3, 1994, through August of 1995, OSHPD has approved commitments to insure 22 projects for a total of \$146,321,021 (see **Exhibit 6**). Of this amount, \$105,660,000 of loan insurance for 16 projects has actually been issued. However, the net insured risk has increased by only \$20,402,385 during this same period because other loans were paid off.

¹³ Section 129005.

During the moratorium, OSHPD implemented additional risk management procedures, including:

Restructuring the Advisory Loan Insurance Committee (Committee). During the moratorium, OSHPD appointed new members to the Committee and included, for the first time, a representative from the Department of Finance. The Deputy Director of Cal-Mortgage acts as the non-voting chairman of the Committee. The members of the Committee bring a broad range of expertise to the review of each application for Cal-Mortgage loan insurance. At present, the Committee comprises a family practice physician with experience in clinic operations; a financial executive with a healthcare services company; a hospital administrator for a major health system, who also has a background as a registered nurse; an investment banker; a healthcare consultant; and an architect with expertise in health facility construction projects.

In April 1995, the Cal-Mortgage regulations were amended to authorize increasing the number of members on the Committee from seven to nine. OSHPD is in the process of filling these two additional vacancies.

Memorandum of Understanding (MOU) For Payments from the HFCLIF. OSHPD entered into an MOU, dated June 1, 1994, with the State Controller, the State Treasurer, and the Department of Finance. This MOU describes the payment procedure to transfer funds from the HFCLIF to the bond trustee when there is a payment shortfall. The MOU responds to the concerns of rating agencies about the ability of OSHPD to transfer monies from the HFCLIF to the bond trustee expeditiously.

Senate Bill 1705 (Russell). In order to strengthen the laws governing the Program, OSHPD sponsored Senate Bill 1705 (SB 1705) which became effective on September 1, 1994. SB 1705 provides Cal-Mortgage with additional tools to prevent borrowers from defaulting and to assist Cal-Mortgage in the event a borrower does default. SB 1705 requires that applications be signed under penalty of perjury by the borrower; exempts the Program from the "one action" rule, which enhances Cal-Mortgage's ability to manage projects facing financial stress; and specifically authorizes OSHPD to direct management of an insured health facility when the facility is in serious financial trouble. SB 1705 also offers additional security to lenders who make the loans insured by OSHPD by specifying that the HFCLIF is a trust fund that can be used only for Program purposes, and by providing that, in the event of a default, debentures issued shall be paid on a par with general obligation bonds issued by the State.

4. Actuarial Studies

When the Program was established in 1969, it was not given an independent capital reserve fund base, as the Program was backed by the full faith and credit of the State. With the receipt of the premiums and fees since 1971, the HFCLIF had grown to approximately \$142 million by the end of the 1994/95 fiscal year (see **Exhibit 5**). In spite of the recent defaults discussed previously, the HFCLIF has grown consistently from June of 1990 through June of 1995 (see **Exhibit 7**). Nonetheless, to determine the reserve sufficiency of the HFCLIF, as Section 129330 requires, Cal-Mortgage contracts every even year for an actuarial study.

In the 1992 study, Arthur D. Little, Inc. recommended a reserve level in the HFCLIF of \$159,524,000 for the approximately \$1,985,000,000 in principal amount of loans insured by OSHPD as of September 30, 1992. As of that same date, the reserve level in the HFCLIF was \$104,404,000, which was \$55,120,000 less than the level recommended in the study.

Cal-Mortgage engaged William M. Mercer, Inc. to conduct an actuarial study for 1994. That study, completed in June 1995, addressed the following four issues: the sufficiency of reserves in the HFCLIF; the ongoing risk to the State General Fund posed by program operations; whether the annual insurance premium charged by the Program should be changed; and whether HFCLIF reserves could yield a greater return if invested outside of the State Pooled Money Investment Account of the State Treasurer's Office.

As to the question of the reserve sufficiency of the HFCLIF, Mercer found that the HFCLIF appears to be sufficient to meet all "normal and expected" expenses of the Program, including the Triad default.

Assessing the effects of several catastrophic scenarios, Mercer stated that neither a major depression, a significant earthquake in the Los Angeles area, nor an unexpected large default would deplete the HFCLIF in the next 15 years. Mercer did observe, however, that if legislation or major changes in the health care economy were to occur such that 2 percent of Cal-Mortgage insured hospitals were to default each year for the next 15 years (30 percent defaulting by the year 2009), then the HFCLIF may be depleted by the year 2008. Even in this scenario, given the size of the HFCLIF, the Program would have more than a decade to plan and implement a recovery strategy.

Mercer concluded that, if HFCLIF's balance were equal to the reserve required under the standards of the California Department of Insurance, the HFCLIF would be sufficient to meet all "catastrophic" events as well as normal operations foreseeable in the next fifteen years. Though Mercer did not specifically recommend adoption of the Department of Insurance Standard, OSHPD believes that this standard (calculated by Mercer at \$205 million) is an appropriate target for HFCLIF reserves, in order to minimize risk to the General Fund even under the most catastrophic scenario of the study.

Mercer recommended that the annual insurance premium (currently 0.5 percent of outstanding loan balances) be neither raised nor lowered. OSHPD agrees with this recommendation. To raise premiums would undermine the fundamental purpose of the Program and its benefit to smaller borrowers, and to lower premiums would be inconsistent with OSHPD's goal to maintain a prudent HFCLIF balance.

Finally, the Mercer study presented an interesting discussion about options for increasing the yield on HFCLIF investments, including investing funds with the Public Employees Retirement System (PERS). However, OSHPD has no authority to invest funds outside of the State Treasury and PERS is not currently set up to provide a banking function for state agencies. Further, Mercer does observe that the State Treasurer's investment strategy is conservative, implies limited volatility, and assures liquidity. Accordingly, for the foreseeable future, OSHPD will not pursue authorization to invest HFCLIF funds outside the Treasurer's State Pooled Money Investment Account.

5. Partnership with Other State Agencies

Since the types of projects insured by OSHPD often rely heavily on State, federal, or local government funding, and in light of the financial pressures that projects have faced with shifts in governmental funding, OSHPD desires to coordinate its loan insurance activities with the program priorities of other State agencies.

During the last year, Cal-Mortgage has had discussions with the licensing divisions and the reimbursement divisions of the Department of Health Services, the Department of Social Services, the Department of Alcohol and Drug Programs, and the Department of Rehabilitation. To the extent OSHPD is insuring loans to borrowers that receive funding from these departments, it is important that these projects are consistent with long term departmental program plans.

While recognizing that program funding policy may change over time, Cal-Mortgage has obtained, and is continuing to obtain, letters from state and local departments that provide the principal source of funding to the applicant, documenting that the applicant's project is consistent with the program plans of the funding source.

II. RATIONALE FOR THIS 1995 CAL-MORTGAGE STATE PLAN

A. Basic Purposes of the Cal-Mortgage Program Remain Valid

The purposes of the Program are twofold: (1) to provide, without cost to the State, a loan insurance program for health facility construction, improvement, and expansion projects, thus stimulating the availability of private capital for health facilities; and (2) to rationally meet the need for new, expanded, or modernized public and nonprofit health facilities necessary to protect the health of all Californians. The provisions of the California Health Facility Construction Loan Insurance Law are to be "liberally construed" to achieve these purposes.¹⁴ The basic purposes of the Program have not changed over the years. What has changed is the paradigm by which health care is being delivered. This has had an effect on the type of new health facilities that are needed and also on the financial performance of many types of health facilities.

The statutory definition of eligible "health facility" has been expanded over time. While originally encompassing only nonprofit and public hospitals and extended care facilities (and those facilities that were necessary adjuncts to hospitals and extended care facilities), the Legislature recognized that some services, which traditionally were delivered in the hospital or extended care setting, had moved out of hospitals and become separate facilities. Today, many different types of health facilities are eligible for Cal-Mortgage loan insurance, such as community care facilities, primary care clinics, specialty care clinics, substance abuse treatment facilities, group homes, skilled nursing facilities, and "multi-level" facilities designed to prevent institutionalization of the elderly.

As noted earlier, Cal-Mortgage insurance activities have changed to reflect changing needs. For example, the 1992 Cal-Mortgage State Plan concluded that the changing healthcare market place called for refocusing the Program toward smaller projects, such as primary care clinics, substance abuse treatment facilities, and community based mental health programs. From adoption of the 1992 Plan through July of 1995, such smaller projects have represented over 53 percent of all the projects insured during that period, though only 39 percent of all insured projects as of July 1992 were for such smaller facilities. This adaptation of the Program reflects its continuing relevance in today's health care market place.

On the other hand, change continues and the pace of change in health care has increased. These changes, due more to powerful market forces than to government intervention, have influenced the development of the 1995 Plan.

B. The Environment in Which the Program Operates is Changing

Many trends affect the operation of the Cal-Mortgage Program, from changes in the bond market to changes in clinical practice patterns. For purposes of this Plan, however, OSHPD views the following four issues as those which have the most significant impact on the Program:

- Growing emphasis on managed care for the delivery and financing of health care services.

¹⁴ Section 129005.

- Continuing concerns regarding access to care in many areas of California.
- Changing methods for meeting the health care needs of special populations.
- Growing uncertainty with respect to government funding of health programs.

Each of these issues is discussed briefly below.

1. Growing Emphasis on Managed Care

At present, more than 80 percent of privately insured individuals voluntarily select a managed care plan for their health insurance coverage.¹⁵ The growth of managed care over the past 5 years has been phenomenal. This has had a dramatic effect on hospital operations. Each hospital must contend with a variety of managed care contract types that includes Health Maintenance Organizations (HMOs), Preferred Provider Organizations (PPO), Exclusive Provider Organizations (EPO), Point of Service (POS), and Medi-Cal managed care. Hospitals must compete for many of these contracts based on price. Where capitated contracts are negotiated (i.e., where reimbursement is based on a fixed rate per member), more volume means less profit - less volume means more profit. Consequently, the financial incentives are to admit fewer patients for shorter periods. Data reported by hospitals to OSHPD show that the average length of hospital stay has decreased from 6.4 days in 1990 to 5.9 days in 1994. While California's population continues to grow, the total number of patient days in the hospital continues to decline - from 18.2 million days in 1990 to 16.5 million in 1994.

This declining utilization also reflects the fact that managed care plans look to the most efficient site for the provision of care. Due to relatively recent technological advances, many surgical procedures formerly performed in the hospital can now be performed safely in an ambulatory setting. This has stimulated rapid growth of freestanding outpatient surgery centers and this competition has forced hospitals to reduce more expensive inpatient care and offer comparable ambulatory care services at a comparably lower cost. In fact, 51.5 percent of all surgical procedures performed by hospitals in 1994 were performed on an outpatient basis, compared to 46.9 percent in 1990. These forces tend to shift the thrust of strategic capital projects to outpatient facilities.

Individual hospitals and hospital-based systems are also affiliating, collaborating, and merging with other hospitals and physician groups to create integrated delivery networks that provide a continuum of care. This coordination creates a more appealing contracting entity and facilitates the alignment of economic incentives among various components of the organization; e.g., as with increasingly popular physician hospital organizations (PHOs). As part of the integration effort, health care systems are spending millions of dollars on developing "seamless information systems." An estimated 20 percent of a system's capital budget is being spent to link the records of all system components to maximize the system's cost-effectiveness and consequently its market power.¹⁶

¹⁵ Melnick, G. and Zwanziger, J.; American Journal of Public Health, 1995; p. 85

¹⁶ Modern Healthcare, *Systems Scurry to Find Partners for Networks*, June 28, 1993.

In this era of managed care, consolidations and competition will most likely allow strong hospitals to become stronger and cause weak hospitals to become weaker. The same pressures that restrict a facility's access to capital also will restrict its ability to service its debt.

On the other hand, ambulatory care facilities affiliated with managed care networks are becoming increasingly important to patient care and, thus, financially attractive. In the foreseeable future, the availability of in-hospital and ambulatory services will continue to be driven by important financial considerations as well as consideration of health care needs and access in the community.

2. Access to Care for Many Californians Remains a Concern

There are many areas in California, both rural and urban, where the need for health care remains unmet. Many factors contribute to this need, including poverty, lack of health insurance, shortages of health care personnel and facilities, and geographic barriers. As a result, there are areas in the State with high incidence of teen pregnancy, inadequate prenatal care, low birth weight babies, and high infant mortality. OSHPD and the State Department of Health Services have collected data and developed a methodology that ranks the 482 rural and urban medical service study areas in California relative to their need for primary care services. **Exhibit 8** is a map showing those areas of critical need throughout California. A total of 9.1 million Californians, nearly one-third of the State's total population, reside in those areas of critical need.

In addition, OSHPD in cooperation with the federal government identifies areas in the State that have a shortage of primary care physicians. These areas are called "Health Professional Shortage Areas". **Exhibit 9** is a map of those areas throughout the State.

The State has recognized these needs by developing programs and services specifically targeted to those populations and areas in greatest need. The State Budget, by targeting such issues as childhood immunizations and expanding access to prenatal care, reflects an acknowledgement that many Californians as yet do not have access to the full range of health care services they need.

Cal-Mortgage must continue to complement these efforts by helping to assure that there are adequate facilities in which these programs and services can operate.

3. Changing Methods for Meeting the Needs of Special Populations

The elderly are the fastest growing segment of our population, yet the data collected by OSHPD shows that California has too many skilled nursing beds. In 1994, there were approximately 16,380 unfilled skilled nursing beds in California. Occupancy rates in long-term care facilities have dropped from 95 percent in 1984 to 85 percent in 1994.

The ambulatory elderly, even some dealing with age-related health issues, are able to come to a health center during the day and receive services in a less expensive setting than a skilled nursing facility. For example, the Adult Day Health Care Program administered by the State, serves primarily Medi-Cal recipients with a wide range of health, therapeutic, and social services that help to restore or maintain optimal capacity for self-care and help prevent

inappropriate or premature placement in a skilled nursing facility.

Home health care is emerging as a viable alternative to institutionalized skilled nursing. Visiting nurses are able to provide much of the same care in the home setting, which may be not only less expensive but also more familiar and comfortable. More and more people of all ages are choosing to live their final days at home or in a hospice, as opposed to the cost-intensive and less personal atmosphere of an institution.

There also has been a change in the setting for treating those with mental or socio-behavioral challenges. While for the past 20 years program policies have favored provision of care in small facilities in a community setting, there have been changes with respect to the specific type of setting deemed most appropriate to meet these special needs. For example, until recently group homes have been considered as an appropriate long-term solution for providing care to minors with such needs. Now, leaders in the field take the position that these children should be placed in foster care homes whenever possible, and group homes should be used only to address short-term specialized needs.

4. Uncertainty with Respect to Continued Government Funding

Total State spending grew at an annual rate of 9 percent from 1983-84 to 1991-92. Since 1991-92, State spending has been essentially flat in current dollars and, after adjusting for inflation, has actually been reduced by 6.4 percent. Since health and welfare expenses account for about one third of total State spending, the kinds of facilities insured by Cal-Mortgage have been faced with reductions in their State revenue streams. Local government revenues also have been static, limited since 1978 by Proposition 13. In several counties, most prominently Orange and Los Angeles, financial problems have reached critical proportions. Since health and welfare expenses account for more than half of total county spending, the kinds of facilities insured by Cal-Mortgage are facing significant cutbacks in local government funding. Federal funding, as well, is less certain as the Congress debates deficit reduction efforts. Block grants for rural and primary care services, block granting of Medi-Cal, and Medicare reform all have significant ramifications for the financial health of Cal-Mortgage insured projects.

This, of course, presents a fundamental dilemma for Cal-Mortgage. Projects heavily reliant on government sources for their revenue streams are those which address under-served populations and reflect broad public interests. On the other hand, in light of uncertainty with respect to continued government funding, they carry with them greater risk over the 25 to 30 year life of an insured loan. Projects which can service debt through private revenue sources are less likely to address broad public interests, but probably have a higher degree of financial security.

C. Conclusion

The current health care marketplace is dynamic and challenging. Health care providers must be creative, pro-active, flexible and disciplined to adapt to the quickly changing health care industry. Though the demand for health care services continues to grow, health facilities and the roles they

play in the health care delivery system are continually evolving. Managed care applies constant pressure for cost-efficiency. Over the past several years, significant changes have occurred in the program priorities of government agencies and such changes are expected to continue, reflecting the changing political and legislative climate.

Cal-Mortgage's mission is to help Californians gain access to needed health care, while managing the Program in a manner that does not risk the State General Fund. To do so, Cal-Mortgage must remain aware of the changing business environment in which its applicants operate in order to allocate insurance prudently, and provide access to capital to those borrowers who provide needed community health care services and can remain viable and competitive in this dynamic and challenging environment.

III. GUIDING PRINCIPLES AND PRIORITIES

OSHPD presently has authority to insure approximately \$1 billion in additional loans.

As noted previously, since lifting the moratorium in May of 1994 through August of 1995, OSHPD has issued letters of commitment for 22 projects totalling \$146.3 million. Of those, loans for 16 projects totalling \$105.6 million have actually been insured. During this same time, as a result of other insured loans being paid off, the total amount of risk insured by the Program has only increased by \$20.4 million. With this recent experience, Cal-Mortgage does not anticipate that the statutory cap of \$3 billion will be approached in the foreseeable future.

Nonetheless, in order to continue to focus the Program on the current needs of California's health care system, it must be administered according to guiding principles and priorities. These enable potential applicants to assess the consistency of their project goals with current Program policy and provide a basis for Program staff to use in determining which applications to recommend for review by the Advisory Loan Insurance Committee and for approval by the Director of OSHPD.

The guiding principles and the priorities that follow are intended to be non-regulatory and flexible.

A. Guiding Principles

- **Financial feasibility.** Cal-Mortgage is required by Section 129005 to operate "without cost to the State." Therefore, all projects must be able to service all their debt, including their OSHPD insured loan. Every project OSHPD guarantees must be unequivocally, financially feasible. In reviewing the financial feasibility of applications, Cal-Mortgage will consider, among other factors, the following: the project's link to managed care networks, where appropriate; the project's consistency with current health care practices; and, the stability of government revenue streams. When projects depend heavily on government programs for reimbursements, applicants should have strong support from the appropriate principal federal, state or local agencies that administer programs supporting services provided by the applicant.
- **Adequate Collateral Security.** Applicants must provide OSHPD with collateral security sufficient at least to cover the insured loan. OSHPD may insure loans for up to 30 years or 75 percent of Cal-Mortgage's estimate of the economic life of the health facility, whichever is less. Accordingly, with the changing economic environment in which health facilities operate, OSHPD believes that insured loans should not be amortized for more than 25 years.
- **Limited Program Exposure.** In order to limit the exposure of the Cal-Mortgage Program vis-a-vis any one project, OSHPD will prefer projects which seek insurance for loans of less than \$40 million. In years past, when the Program operated without a limit and at a time when California was experiencing strong economic growth and rising real estate values, it seemed reasonable and even favorable for the Program to approve large applications - even up to \$100 million and more. Today, however, with the rapidly changing health care environment, this view is no longer appropriate.
- **Balanced Portfolio.** Within this \$40 million cap, OSHPD recognizes the need to

provide for a reasonable balance of large and small projects. Again, in order to effectively manage the Program at no cost to the state taxpayer, larger projects will be those which demonstrate a higher level of financial security and, while somewhat riskier, the small projects will be those which respond most strongly to improving access to needed care. OSHPD recognizes the particular problems faced by very small projects (generally those less than \$5 million) and will work pro-actively with small applicants, the financial community, and other State agencies to help meet their needs for capital.

- **Access to Care.** The primary purpose of the Program is to assist in ensuring that needed health facilities are available to all of the people of the State.¹⁷ The Program should be available to assist needed facilities to obtain financing, especially where there are no other financing alternatives available. OSHPD believes this will be especially true for projects in medically under-served areas, and for non-profit or government providers who serve a disproportionate share of publicly sponsored or indigent patients. However, where there is significant competition among providers for the same patient population, such competition can be an indicator that there is adequate service capacity available to the patient population.
- **Obligation To Provide Community Service.** Under existing law, Cal-Mortgage insured projects are required to serve the community. Applicants seeking Cal-Mortgage loan insurance will be asked to prepare a community service plan reflecting an assessment of the needs of the community in which the project operates. Any costs associated with meeting this community service obligation must be reflected in the applicant's financial feasibility analysis.

B. Priorities

OSHPD determines that the following types of projects are deemed to have priority and will be encouraged by Cal-Mortgage:

- Projects in medically under-served areas or projects that serve medically under-served populations, with preference for those developing or participating in managed care or other network arrangements.
- Projects that promote access to primary care services, with preference for those developing or participating in managed care or other network arrangements.
- Projects that provide services to keep people with special needs functioning optimally in a community-based environment and avoiding the need for institutional placement. Special needs populations would include, but not be limited to, the elderly, persons with mental or developmental disabilities and children.
- Projects that provide innovative solutions to health care delivery problems. These may include projects that promote the development of efficient health care networks in rural areas, projects that provide integrated services for persons with AIDS/HIV, or projects

¹⁷ Section 129005.

that make use of new technologies to improve access to needed care or improve the quality of care provided.

- Projects that reduce risk to the Program's insurance fund, the HFCLIF. This would include projects to refinance debt already insured by Cal-Mortgage to substantially reduce interest rates,¹⁸ projects to merge facilities already insured by the Program in order to realize economies of scale or other operating efficiencies, and projects that are especially strong financially and have an "investment grade" rating.

Generally, loans for acute inpatient care facilities are not a priority. Exceptions may be small renovations or modernizations and projects for which no other similar services are available within reasonable distance. In addition, Cal-Mortgage is exploring the extent to which loan insurance should be provided to support seismic retrofitting of health facilities, especially sole community providers, pursuant to the provisions of SB 1953 of 1994.

C. Projects Generally Excluded

OSHPD will not provide insurance to projects which are being sold by for-profit entities to nonprofit entities, being refinanced into nonprofit entities by for-profit entities, refinancing debt incurred by a for-profit corporation, or financing for bankruptcy "take outs".

OSHPD will not provide insurance for so-called "escrow financings," where bond proceeds are placed in an escrow account for an extended period of time prior to beginning the actual construction phase of the project. The construction phase of

the project must be scheduled to begin within 60 days from the close of the insured loan transaction.

OSHPD will not provide insurance to projects in highly competitive health care markets, where such insurance will serve principally to improve the competitive position of one health care provider over others.

OSHPD will not insure loans to facilities whose services are not supported by program policies of other State, federal and local governmental agencies.

OSHPD will not insure loans where the applicant's board members, officers or employees or their family receive a benefit from the financing.

Projects insured by OSHPD must be built on land owned by the applicant. An exception may be made if the land will be leased to the applicant for a long term at reasonable rates,¹⁹ with no restrictions on the property in the event of a default by the borrower.

¹⁸ Currently insured projects are eligible to be refinanced without counting against the \$3 billion cap. Chapter 753, Statutes of 1991.

¹⁹ See Civil Code Section 718.

The borrower's equity cannot be borrowed funds; contributed equity must be real or personal property or cash. If a borrower owes a debt to a related company, the related company must agree that, in the event the borrower defaults in its loan payments insured by OSHPD, the debt to the related company will be forgiven.

OSHPD will not insure a loan to a borrower which is involved in a lawsuit with the State or any other material lawsuit until the lawsuit is resolved to the satisfaction of Cal-Mortgage.

IV. PROGRAM ADMINISTRATION AND GENERAL PROCEDURES

A. Administration

The Cal-Mortgage Program is administered by the Cal-Mortgage Loan Insurance Division staff.

Cal-Mortgage contracts for audit, actuarial, and consultant services. It obtains legal services from the State Attorney General's Office and from private law firms for specific matters.

OSHPD is assisted by an Advisory Loan Insurance Committee, which OSHPD created by regulation. The Committee provides technical review and analysis of the applications for loan insurance that have been reviewed and recommended by Cal-Mortgage staff. The Committee decides whether to recommend the proposed project for approval by the Director of OSHPD.

OSHPD also is assisted by the California Health Policy and Data Advisory Commission (CHPDAC), which was created by statute. CHPDAC gives OSHPD and Cal-Mortgage general advice by periodically reviewing the Program in its public meetings, reviews and provides advice on Cal-Mortgage state plans, and serves as a review body for Cal-Mortgage applicants whose applications were denied by Cal-Mortgage or the Committee.

B. Application Process

All applicants for Cal-Mortgage loan insurance must proceed through an application and credit evaluation process. Cal-Mortgage Application Packages (including a description of the application process, a checklist, and various forms) are available upon request from Cal-Mortgage. The Program charges applicants a \$500 application fee, a one-time certification and inspection fee of four tenths of one percent (0.4 percent) of the insured loan, and an insurance premium fee of one-half of one percent (0.5 percent) per year on the outstanding loan balance for applicants who receive loan insurance.

The process for reviewing applications for loan insurance comprises seven steps. By structuring the process in several steps or stages, OSHPD's goal is to make determinations about an application as early in the process as possible. In this way, if an application is not approved, the applicant's costs are kept to a minimum.

The first step is a preliminary project review. While a Cal-Mortgage Project Officer is assigned to the application at this stage, the \$500 application fee need not be submitted during the preliminary project review. The Project Officer generally assesses the community need for the facility, the feasibility of the project, and eligibility for Cal-Mortgage loan insurance.

The next step consists of the applicant submitting a specific set of documents intended to expand on and confirm the information included in the preliminary review discussed above. To initiate this second stage, the applicant must submit a \$500 non-refundable application fee. After review of the materials submitted, the Project Officer makes a preliminary determination as to the eligibility of the applicant and the proposed project.

The third step of the application process entails the submission of additional documents. The key question under consideration at this stage is whether the proposed project is financially feasible. Program staff assess the community need for the project, the management expertise of the applicant's executive staff, reasonableness of the project scope and cost, financial projections (including debt service capacity), security and collateral. At this stage, the Deputy Director of Cal-Mortgage decides whether to recommend the project to the Advisory Loan Insurance Committee. Only projects recommended for approval proceed to the next step.

The fourth step is review, in a public meeting, of the application by the Committee. This review provides additional expertise and perspectives in the analysis of the project, and a forum for consideration of any input from members of the community to be served by the project or the general public. The Committee decides whether to recommend the project for approval to the Director and, if so, whether the applicant should be required to meet any specific conditions prior to final issuance of the loan guarantee.

Fifth, the Director of OSHPD makes the final decision to approve or disapprove the application. If the Director concurs with the recommendation of Cal-Mortgage and the Committee to approve the application, OSHPD will issue a letter of commitment specifying any conditions the applicant must meet prior to the final issuance of loan insurance.

The sixth step of the process involves the sale of the bonds or certificates of participation. Prior to this stage, the applicant must provide Cal-Mortgage with documentation that all of the conditions contained in the commitment letter have been met.

The seventh and final step is the close of escrow, at which point the loan is made and Cal-Mortgage loan insurance goes into effect.

Note that, if an application is denied by Cal-Mortgage or the Committee, the applicant may have that decision reviewed by CHPDAC.

C. Monitoring of a Project After the Loan is Closed

Following the close of escrow, an insured project is monitored by Cal-Mortgage for compliance with loan covenants as long as the loan is insured by OSHPD. The Project Officer also reviews periodic financial reports and visits the project site in order to be assured of the continuing solvency of the borrower. The monitoring process is geared to detect, as early as possible, any potential problems. The Project Officer and Cal-Mortgage management assist the borrower in resolving any financial problems arising while the loan is insured by OSHPD.

In years past, OSHPD on occasion dealt with problem projects by wrapping a troubled project with a new one and providing more funding for the larger project, including working capital, to provide sufficient funds to survive troubled times. This was done with the belief that, over time, better management and the fast growing economy would solve the borrower's problems. However, this approach sometimes led to increasing the insured loan to a level substantially higher than the value of the security held by OSHPD. In the current economic environment, this approach is generally not prudent.

When OSHPD identifies a problem project, its approach is to attempt to solve that project's

problem by working with the borrower's Board of Directors and management to develop a turnaround business plan and budget. Cal-Mortgage monitors conformance with the business plan, as needed. To minimize additional risk, OSHPD normally will not provide more loan insurance for the project.

D. Provisions to Assist Small Facilities (\$5,000,000 or less)

Section 129355, subsection (d), requires the state plan to ". . . include specific programmatic remedies to enable small projects to utilize the program if impediments are found."²⁰ Section 129355 does not define "small projects" or "small facilities" but it does refer to "community health center facilities" projects in the amount of \$5 million or less.²¹ Therefore, for the purposes of this section of this 1995 Plan, "small project" refers to any project, regardless of type, of \$5 million or less.

One impediment to small facilities in obtaining loan insurance from Cal-Mortgage can be the up-front costs that an applicant must incur to develop a project, especially if construction is involved, and to complete the required application. In addition, the costs of issuance for a small project may be disproportionately expensive and the time frame for funding the project may be excessive. The following measures are intended to assist small project borrowers in overcoming these impediments:

- Cal-Mortgage has revised the application process such that required documents are submitted in a step-wise fashion. This allows the Project Officer to make a preliminary assessment of the eligibility, structure and feasibility of a proposal. This process helps small project borrowers avoid unnecessary costs to further develop an application if it is basically ineligible or infeasible.
- Cal-Mortgage has developed, and is continuing to develop, outreach services to various provider associations in order to assist small project borrowers to access the Program.
- Cal-Mortgage has increased the number of Project Officers to provide technical assistance to borrowers with limited expertise and resources.
- In order to accommodate any time delays in funding small projects, Cal-Mortgage has extended the time of its commitment to insure a project from six months in the 1992 Plan to a maximum of twelve months.
- Cal-Mortgage has developed a financial feasibility workbook for projects under \$300,000 that can be completed by the applicant and thereby eliminate additional consultant costs.

²⁰ Section 129355, subsection (d) (formerly Section 436.75), Chapter 1094, Statutes of 1991 (Assembly Bill 1777).

²¹ Section 129355, subsection (b) (formerly Section 436.75) and Section 1204.

V. FUTURE ACTIVITIES OF CAL-MORTGAGE

The Cal-Mortgage State Plan is a dynamic document that will be reviewed from time to time and adjusted accordingly to improve the Program and to meet the changing needs of the State's health care industry. The following tasks, among others, will be undertaken in the next several years to improve and enhance the Program:

- If feasible, establish a pooled earthquake insurance policy. The goal would be to acquire a policy which would provide reasonable coverage for earthquake damage to Cal-Mortgage insured facilities at affordable rates. The Office would require that all Cal-Mortgage projects participate in the pool, paying a prorata share of the insurance premium, unless they have already secured equivalent or superior coverage.
- Expand outreach services, especially for small projects, by working with health care associations to inform their members of the availability of the Program and to distribute copies of this 1995 Plan.
- Determine whether a program can be implemented that would facilitate the financing of small projects by speeding up the closing of the loan and by reducing closing costs.
- Continue to work with the California Health Facilities Financing Authority in identifying potential projects which could benefit from the programs offered by the Authority for small construction and equipment loans.
- Explore ways of working with the United States Department of Agriculture, which also provides loans to some of the same clinic projects as OSHPD, in order to provide additional capital at reduced rates.
- Explore ways of working with the Public Health Service of the United States Department of Health and Human Services, as it provides grants and loans to clinics that also may have loans insured by OSHPD.
- Evaluate and enhance project monitoring procedures and performance indicators in order to identify problem projects at the earliest stage and to begin remedial action. An example might be to monitor a borrower's accounts payable and, if they go beyond a certain number of days or if days cash drops below a certain amount, such events would constitute events of default. Another example might be to require that projects establish specific performance targets for their chief executives and, if they do not meet those targets, corrective action would be taken.
- In order to assure uniform and consistent legal documents, draft a standard indenture (trust agreement) for the Program and require its usage by each insured borrower.

VI. PUBLIC COMMENT

In order to obtain public comment on the Draft 1995 Plan, Cal-Mortgage requested written input from March 14, 1996, through April 30, 1996. Written notices of the Draft 1995 Plan were sent to over 220 Cal-Mortgage insured borrowers (see **Exhibit 10**), and copies of the Draft 1995 Plan were sent to those 54 borrowers who requested a copy (see **Exhibit 11**). Additionally, written notices (see **Exhibit 12**) with copies of the Draft 1995 Plan were sent to the 73 persons listed in **Exhibit 13**.

As announced in the two notices, comments on the Draft 1995 Plan were accepted at two public hearings, one before the Cal-Mortgage Advisory Loan Insurance Committee (Committee) on April 10, 1996, and the second before the California Health Policy and Data Advisory Commission (CHPDAC) on April 11, 1996. Both bodies recommended approval of the Draft 1995 Plan.

Public comment included the following:

The Department of Developmental Services (DDS) supported and encouraged those components of the Draft 1995 Plan which affect the consumers served by DDS (see **Exhibit 14**). DDS did not propose any changes to the Draft 1995 Plan.

The California Association of Homes and Services for the Aging (CAHSA) made several recommendations for modifications to the Draft 1995 Plan. These recommendations were included in a letter from Mr. Derrell Kelch (see **Exhibit 15**). OSHPD's reply to Mr. Kelch's letter may be found at **Exhibit 16**.

OSHPD is pleased with the support it received on the 1995 Plan from the Committee, the CHPDAC, DDS and the general public. OSHPD also appreciates CAHSA's careful review and comment on the 1995 Plan.

Exhibit 1
Cal-Mortgage Insured Risk
January 1990 through May 1999

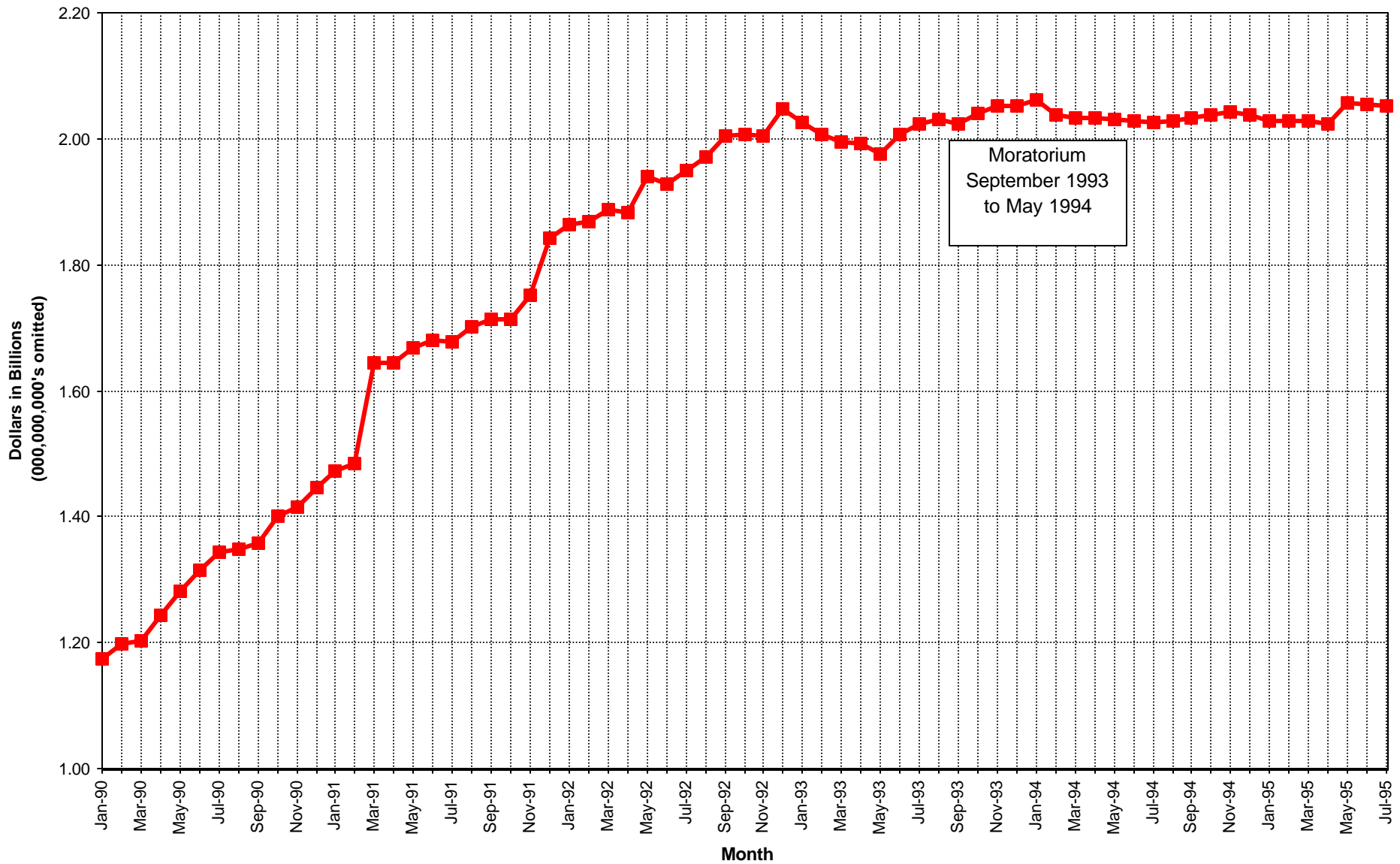


Exhibit 2
Number of Cal-Mortgage Insured Loans
January 1990 to July 1995

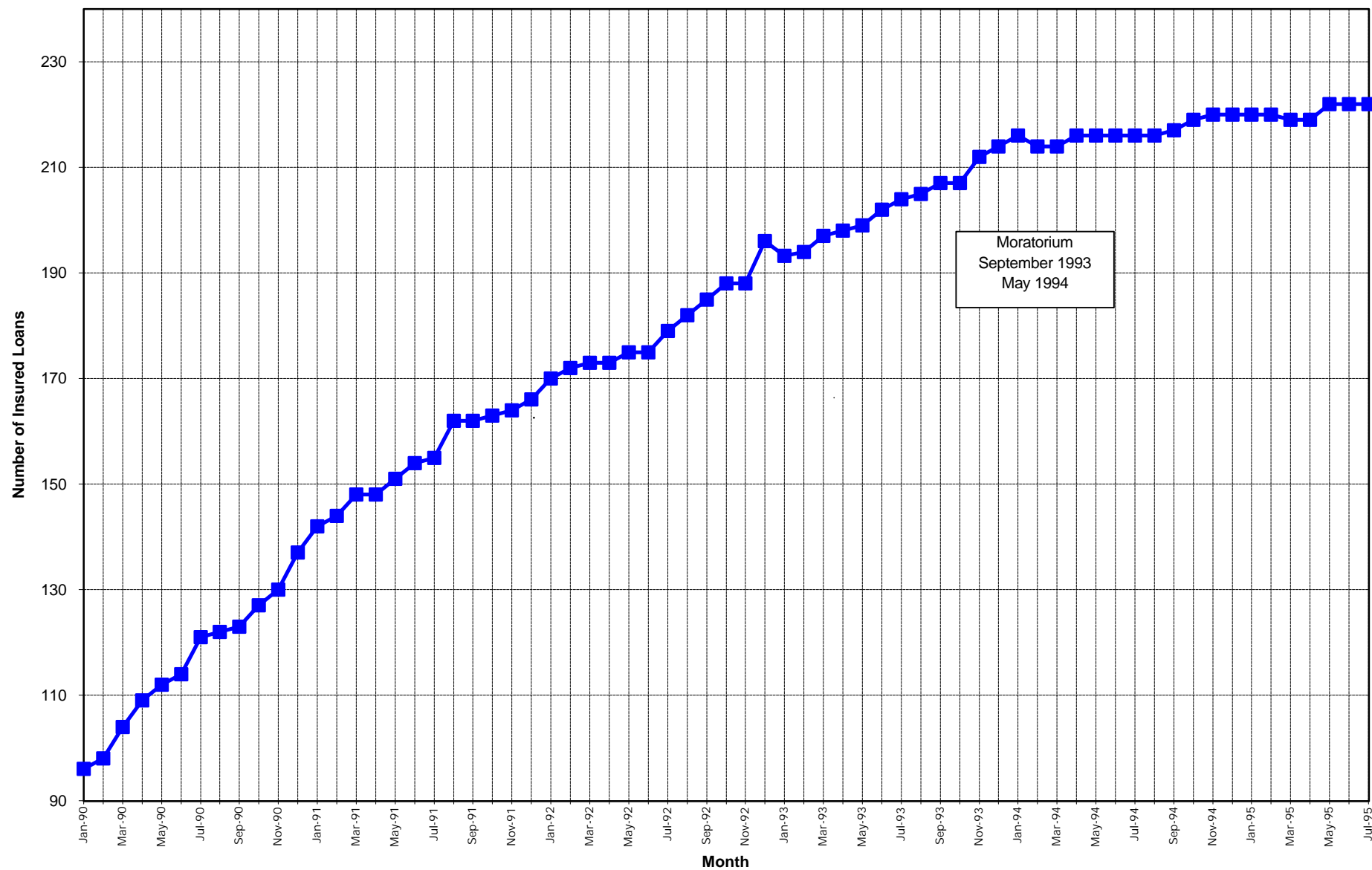


Exhibit 3
Listing of Projects Insured
From July 1, 1992 through July 31, 1996

Proj. #	Health Facility	Type	Date Insured	Original Insured Amt.	APB (Risk)	Percentages
0424	HORIZON SERVICES	CDRF	09/28/92	1,125,000	1,125,000	
0432	S.C.A.D.P.-HERITAGE HOUSE	CDRF	12/29/92	1,315,000	1,275,618	
0440	SOCIAL MODEL/TOUCHSTONES	CDRF	03/19/93	920,000	914,500	
0487	JANUS OF SANTA CRUZ	CDRF	03/24/93	1,000,000	974,057	
0481	SO. BAY ALCOHOLISM SVCS.	CDRF	03/24/93	1,290,000	1,258,743	
0498	S.C.A.D.P.	CDRF	06/11/93	760,000	753,100	
0499	PROTOTYPES WOMEN'S CTR.	CDRF	06/23/93	2,530,000	2,450,479	
0528	DRUG ABUSE ALTER. CTR.	CDRF	11/18/93	1,825,000	1,823,836	
0493	THIRD FLOOR	CDRF	11/18/93	290,000	289,767	
0470	BEACON HOUSE ASSOCIATION	CDRF	12/08/93	2,280,000	2,279,329	
CDRF Total: Dollar Amount					13,144,430	1.48%
CDRF Total: Number of Projects					10	10.64%
0256	CLINICAS DE SALUD/PUEBLO	Clinic	07/02/92	1,720,000	1,679,932	
0393	CLINICAS DE SALUD/SALINAS	Clinic	07/02/92	1,450,000	1,414,945	
0427	SALUD PARA LA GENTE	Clinic	07/02/92	620,000	604,973	
0405	AIDS PROJECT-LOS ANGELES	Clinic	08/26/92	10,000,000	9,694,413	
0421	GIARRETTO INSTITUTE	Clinic	10/02/92	1,025,000	1,024,959	
0409*	HENRIETTA WEILL MEMORIAL	Clinic	10/14/92	1,445,000	1,355,288	
0462	A.A.C.I.	Clinic	10/28/92	4,800,000	4,735,192	
0425	BUTTE VALLEY-TULELAKE R.H.P.	Clinic	10/28/92	1,000,000	988,890	
0422	MIRAMONTE MNTL.HLTH.SVCS.	Clinic	12/23/92	2,600,000	2,568,014	
0437	BIG VALLEY MEDICAL CENTER	Clinic	03/24/93	900,000	879,055	
0434	LINDHURST FAMILY HLTH. CTR.	Clinic	05/28/93	1,260,000	1,252,664	
0519	CLINICAS DEL CAMINO REAL	Clinic	11/15/93	550,000	550,000	
0516	SEQUOIA COMM. HLTH. FNDTN.	Clinic	11/18/93	2,430,000	2,428,603	
0461	VERDUGO MENTAL HLTH. CTR.	Clinic	12/16/93	995,000	995,000	
0446	HERMANDAD MEX.NAC'L., INC.	Clinic	01/06/94	4,385,000	4,384,041	
0518	MFHC-CHILDS AVENUE CLINIC	Clinic	01/28/94	3,785,000	3,781,301	
0539	AGRICULTURAL WRKRS.HLTH.CTR.	Clinic	10/12/94	3,050,000	3,050,000	
0588	SATICOY FAMILY HLTH. CARE CTR.	Clinic	05/24/95	7,225,000	7,225,000	
0548	AIRPORT MARINA COUNSELING	CLINIC	09/27/95	735,000	735,000	
0571	ASIAN HEALTH SERVICES	CLINIC	11/21/95	6,524,823	6,524,823	
0609	FAMILY HLTH.FNDTN. OF ALVISO	CLINIC	08/30/95	5,000,000	5,000,000	
0577	NCHS-SAN MARCOS COMM.	CLINIC	03/14/96	5,500,000	5,500,000	
0591	PORTERVILLE FAMILY HLTH. CTR.	CLINIC	11/21/95	2,880,000	2,880,000	
Clinic Total: Dollar Amount					69,252,092	7.77%
Clinic Total: Number of Projects					23	24.47%
0385	HLTH. CARE CHILDS. CAMPUS	Group Home	09/30/92	9,930,000	9,918,082	
0473	AVENUES TO MENTAL HEALTH	Group Home	10/08/92	7,500,000	7,462,890	
0471	JEFFREY FOUNDATION	Group Home	12/18/92	300,000	300,000	
0448	MENTAL HLTH. SYSTEMS, INC.	Group Home	12/30/92	645,000	645,000	
0349	OLIVE CREST TREATMENT CTR.	Group Home	12/30/92	2,280,000	2,245,510	
0460	LONG BEACH YOUTH CENTERS	Group Home	04/12/93	1,185,000	1,179,550	
0423	GATEWAY CENTER	Group Home	05/11/93	835,000	828,900	
0523	EASTER SEAL SOCIETY	Group Home	06/30/93	3,725,000	3,615,068	
0506	GUADALUPE HOMES	Group Home	04/04/94	920,000	914,877	
0546	FAMILIES FIRST	Group Home	11/15/94	9,995,000	9,995,000	
0605	CALIFORNIA AUTISM FOUNDATION	Group Home	11/08/95	4,700,000	4,700,000	
0509	EXCEPTIONAL CHILD.'S FNDTN.	Group Home	09/27/95	2,990,000	2,990,000	
0602	SOUTHERN CA DEVEL. CORP.-V.O.A.	Group Home	01/11/96	3,500,000	3,500,000	
0529	THESSALONIKA FAMILY SERVICES	Group Home	12/19/95	1,360,000	1,360,000	
Group Home Total: Dollar Amount					49,654,878	5.57%
Group Home Total: Number of Projects					14	14.89%
0408	MARSHALL HOSPITAL	Hospital	07/07/92	18,000,000	17,581,740	
0431	CORCORAN DIST. HOSP.	Hospital	07/23/92	1,555,000	1,461,858	
0428*	TRIAD HEALTHCARE	Hospital	09/02/92	167,354,203	167,354,203	
0474**	KERN VALLEY HOSPITAL DIST.	Hospital	09/03/92	1,000,000	502,931	
0416	SIERRA VIEW DIST. HOSPITAL	Hospital	12/17/92	33,150,000	33,150,000	
0382*	MADERA COMM. HOSPITAL	Hospital	03/11/93	10,200,000	9,211,027	

Exhibit 3
Listing of Projects Insured
From July 1, 1992 through July 31, 1996

Proj. #	Health Facility	Type	Date Insured	Original Insured Amt.	APB (Risk)	Percentages
0531**	VALLEY MEMORIAL HOSPITAL	Hospital	07/07/93	11,660,000	11,570,574	
0507*	ST. LUKE's HOSPITAL - S.F.	Hospital	07/15/93	10,378,356	9,760,000	
0524*	MARSHALL HOSPITAL	Hospital	10/06/93	19,975,000	19,529,192	
0533*	MAYERS MEMORIAL HOSPITAL	Hospital	01/27/94	9,220,000	9,071,438	
0570**	LOS MEDANOS COMM. HOSP.	Hospital	04/01/94	1,500,000	1,469,342	
0569*	BROOKSIDE HOSPITAL DIST.	Hospital	06/29/94	18,335,000	18,137,459	
0552*	TAHOE FOREST HOSPITAL	Hospital	08/04/94	12,755,000	11,937,973	
0576	JOHN C. FREMONT HOSP. DIST.	Hospital	10/11/94	5,840,000	5,840,000	
0604**	TRIAD HEALTHCARE	Hospital	03/31/95	4,000,000	4,000,000	
0594*	REDBUD COMM. HOSPITAL	Hospital	04/13/95	4,985,000	4,985,000	
0595	SAN GORGONIO MEM. HOSP.	Hospital	05/25/95	8,565,000	8,565,000	
0587**	WATSONVILLE COMM. HOSP.	Hospital	05/25/95	20,000,000	20,000,000	
0496	DANIEL FREEMAN HOSPS., INC.	Hospital	09/27/95	3,325,000	3,325,000	
0554*	SAN GABRIEL VLY. MED. CTR.	Hospital	03/27/96	51,500,000	51,500,000	
0629*	WATSONVILLE COMM. HOSP.	Hospital	06/27/96	16,385,000	16,385,000	
Hospital Total: Dollar Amount					425,337,736	47.75%
Hospital Total: Number of Projects					21	22.34%
0367	CANYON VILLAS RET. COMM.	MULTI	08/04/92	8,360,000	8,222,924	
0463	TERRACES OF LOS GATOS	MULTI	08/26/92	41,835,000	41,835,000	
0476*	FRIENDS HOUSE	MULTI	10/14/92	1,140,000	980,575	
0447	ONLOK, INC.	MULTI	12/22/92	13,300,000	13,300,000	
0508*	MERCY MCMAHON TERRACE	MULTI	03/17/93	9,360,000	8,820,466	
0350	PACIFIC HOMES	MULTI	06/15/93	46,540,000	46,540,000	
0525*	ESKATON PROPERTIES	MULTI	07/02/93	50,790,000	48,403,825	
0527*	CASA DORINDA	MULTI	07/13/93	19,430,000	18,666,175	
0544	PACIFIC HOMES	MULTI	07/20/93	3,460,000	2,484,959	
0530*	BAYWOOD COURT	MULTI	07/29/93	23,675,000	22,694,726	
0489	FRIENDS HOUSE	MULTI	08/12/93	2,000,000	1,976,366	
0456	VILLA GARDENS - SERIES A	MULTI	08/19/93	20,000,000	3,848,114	
0456	VILLA GARDENS - SERIES B	MULTI	08/19/93	0	15,651,394	
0494	MEADOWS OF NAPA, THE	MULTI	10/06/93	18,995,000	18,995,000	
0497	SIERRA SUNRISE LODGE	MULTI	11/17/93	5,270,000	5,270,000	
0557*	CALIFORNIA LUTHERAN HOMES	MULTI	01/04/94	16,890,000	16,483,900	
0567*	SOLHEIM LUTHERAN HOME	MULTI	06/23/94	8,230,000	8,111,397	
0517	ST. PAUL'S EPIS. HOME, INC.	MULTI	09/13/94	7,140,000	7,140,000	
0600	F.A.C.T. - VISTA DEL MONTE	MULTI	01/24/96	16,805,000	16,805,000	
MULTI Total: Dollar Amount					306,229,821	34.38%
MULTI Total: Number of Projects					19	20.21%
0477*	AIDS HEALTHCARE FNDTN.	Other	10/22/92	5,855,000	5,768,342	
0445	FEEDBACK FOUNDATION, INC.	Other	12/30/92	2,140,000	2,074,911	
0492	UNITED CEREBRAL PALSY	Other	09/17/93	755,000	755,000	
0578	LINN HOUSE	Other	11/10/94	3,300,000	3,300,000	
0616	BECOMING INDEPENDENT	Other	02/29/96	1,665,000	1,665,000	
Other Total: Dollar Amount					13,563,253	1.52%
Other Total: Number of Projects					5	5.32%
0478*	ASIAN COMMUNITY SNF	SNF	10/14/92	3,160,000	3,000,575	
0560*	KEIRO NURSING HOME	SNF	03/10/94	10,675,000	10,559,221	
SNF Total: Dollar Amount					13,559,796	1.52%
SNF Total: Number of Projects					2	2.13%
Grand Total: Dollar Amount					890,742,007	100%
Grand Total: Number of Projects					94	100%

* These projects refinanced a previously insured project, either in full or partially. See the report entitled "Cal-Mortgage Projects by Type of Facility, Refinanced or Defeased from July 1, 1992 through July 31, 1995", for further details.

** These projects were for work-outs, replacement of existing hospital or additions to previously insured projects.

Exhibit 4

SUMMARY OF CAL-MORTGAGE PROJECTS AND INSURED RISK

BY FACILITY TYPE

As of July 31, 1995

<u>Type of Facility</u>	<u>Insured Projects</u>		<u>Letters of Commitment</u>	
	No.	Amount	No.	Amount
Hospital	65	\$1,037,262,281	1	\$3,325,000
Clinic ¹	38	72,637,394	3	14,780,000
Multi ²	46	706,094,729	1	650,000
SNF ³	7	42,673,732	0	0
CDRF ⁴	23	49,152,662	0	0
Group Homes ⁵	20	56,180,904	2	7,690,000
Other ⁶	23	83,528,328	3	4,330,000
Totals	222	\$2,047,530,030 ⁷	10	\$ 30,775,000

¹ Primary Care Clinics.

² Multi-level facilities that include residential units for the elderly, coupled with a skilled nursing facility, an intermediate care facility, or a general acute care hospital.

³ Skilled Nursing Facility. Some of these may actually be part of a Multi-level facility but, Cal-Mortgage only insures the Skilled Nursing Facility portion.

⁴ Chemical Dependency Recovery Facility, Adult Drug Abuse Treatment Facility, Alcohol Recovery Facility, Alcohol Free Living Centers, and Substance Abuse Recovery Facility.

⁵ Group Homes include Group Homes for the Developmentally Disabled, Community Care Facilities for the Developmentally Disabled, Group Homes for the Developmentally Disabled and Mentally Disabled or Emotionally Disturbed (provides residential care), Group Homes for the Mentally Disabled or Emotionally Disturbed (provides residential care), Community Care Facility - Group Home (provides residential care).

⁶ Other includes Adult Day Care for the Developmentally Disabled, Adult Day Health Care, Blood Banks, Birthing Centers, A.I.D.S. Clinics, Dialysis Clinics, Mental Health Clinics, Community Mental Health Clinics, Hospices, Intermediate Care Facilities, and Intermediate Care Facilities for the Developmentally Disabled.

⁷ Actual risk amount is \$2,050,945,343 which includes the Bond Reserve Amount of \$1,551,488 and the Insurance Reserve Amount of \$83,825 for projects refinanced under "STARTS"-Series A, Phase II and the Bond Reserve Amount of \$1,691,875 and the Insurance Reserve Amount of \$88,125 for projects refinance under "STARTS"-Series B, Phase II.

Exhibit 5
Health and Welfare Agency
Office of Statewide Health Planning and Development
Cal-Mortgage Loan Insurance Division
Health Facility Construction Loan Insurance Fund (Fund)
Assuming New Loans of \$40 Million/Year From 06-30-95 to 06-30-99
(Revised 08-23-95)

	93-94	94-95	95-96	96-97	97-98	98-99
	Actual	Actual	Estimated	Estimated	Estimated	Estimated
BEGINING FUND BALANCE (RESERVES) as of 06-30: (14)	\$114,377,910	\$126,598,716	\$142,115,310	\$146,633,941	\$147,467,736	\$151,240,841
INCOME TO THE FUND:						
Premiums, assuming new loans of \$40 million/year from 06-30-95 to 06-30-99(9,981,835	11,383,669	10,473,599 (2)	10,673,599	10,873,599	11,073,599
Application and Inspection Fees	377,760	289,680	200,000	200,000	200,000	200,000
Interest	5,250,035	7,278,988	8,522,655 (3)	8,793,637	8,843,640	9,069,913
Income Total	\$15,609,630	\$18,952,337	\$19,196,254	\$19,667,237	\$19,917,239	\$20,343,512
Total Reserves and Income	\$129,987,540	\$145,551,053	\$161,311,564	\$166,301,178	\$167,384,975	\$171,584,353
EXPENSES TO THE FUND:						
Cal-Mortgage Administration Costs	\$ (3,331,217)	(\$3,248,129)	(\$3,790,499)	(\$3,904,214) (13)	(\$4,021,340)	(\$4,141,981)
Balance	\$126,656,324	\$142,302,924	\$157,521,065	\$162,396,964	\$163,363,635	\$167,442,373
Triad: Assuming no payment by Triad to the trustee. Triad is obligated to pay the trustee \$2.9 million/year commencing in February 1997.	0	0 (5)	(9,800,000) (8)	(13,300,000)	(10,500,000)	(10,500,000)
Lytton Gardens: Assuming continued payment of approximately 1/2 of its annual debt service of \$886,580/year.	(148,000)	(261,000) (4)	0 (9)	0	0	0
Los Medanos: Assuming no payments on annual debt service of \$983,674. However, the property is valued in excess of the outstanding principal balance of approximately \$6.4 million.	0	0 (6)	(934,995) (10)	(934,995)	(933,115)	(930,385)
Health Care Delivery Services: Assuming no payments on annual debt service in FY 94-95 and FY 95-96. However, once HCDS has full occupancy, it will be able to meet its payments and no more payments from the Fund will be necessary.	0	0 (7)	(80,000) (11)	0	0	0
Sequoia Health: Assuming USPHS & Dept. Health Services provide inadequate ongoing revenue.	0	0	(72,129) (12)	(345,343)	(340,187)	(340,395)
The Third Floor: Assuming no payments on annual debt service in FY 95-96. Presently, property is valued at \$1.4 million with an outstanding balance of \$3.1 million.	0	0	0	(273,515)	(275,152)	(271,447)
Mary-Lind Foundation: Assuming no payments on annual debt service in FY 96-97. Presently, property is valued at \$450,000 with an outstanding balance of \$850,000.	0	0	0	(75,375)	(74,340)	(73,305)
CACCOA: Financial Recoveries	90,392	73,386				
Estimated Fund Balance	\$126,598,716	\$142,115,310	\$146,633,941	\$147,467,736	\$151,240,841	\$155,326,841

(1) was estimated at \$300 million; reestimated based on applications recommended by ALIC
(2) Balance of insured loans as of 06-30-95: \$2,054,719,847 x .005 = \$10,273,599
(3) HFCLIF value as of 07-01-95 of \$137,705,929 x .05997 = \$8,258,225
(4) was estimated at \$522,000; actual was \$261,000
(5) was estimated at \$1,500,000; actual was \$0
(6) was estimated at \$491,837; actual was \$0
(7) was estimated at \$139,000; actual was \$0

(8) was estimated at \$12,000,000; reestimated at \$9,800,000
(9) was estimated at \$522,000; reestimated at \$0
(10) was estimated at \$983,674; reestimated at \$934,995
(11) was estimated at \$766,000; reestimated at \$80,000
(12) was estimated at \$182,966; reestimated at \$72,129
(13) estimated 3% increase per year
(14) Cash balances were: 06-30-93: \$112,323,598
06-30-94: \$124,121,945
06-30-95: \$137,705,929

Exhibit 6
Listing of Projects Approved Since Lifting the Moratorium on May 3, 1994
As of August 1995

Facility Name	Type of Facility	Location of Facility	Application Amount	Date of Commitment Letter	Date Loan Closed	Insured Loan Amount
Agricultural Worker's Health Center, Inc.	Clinic - PC	Stockton	3,150,000	6/23/94	10/12/94	\$3,050,000
Tahoe Forest Hospital District	District Hospital	Truckee	12,900,000	6/24/94	8/4/94	12,755,000
St. Paul's Episcopal Homes, Inc.	Multilevel	San Diego	7,235,000	7/6/94	9/13/94	7,140,000
FamiliesFirst, Inc.	Group Home	Davis	9,950,000	8/12/94	11/21/94	9,995,000
John C. Fremont Hospital District	District Hospital	Mariposa	5,655,000	8/16/94	10/11/94	5,840,000
Aids Healthcare Foundation, Inc./Linn House	Hospice	Los Angeles	3,300,000	9/30/94	11/10/94	3,300,000
Thessalonika Family Services, Inc. (DBA Rancho Damacitas)	Group Home - DD/MD	Temecula	1,265,000	12/7/94	Cancelled	
Redbud Community District Hospital	District Hospital	Clearlake	5,995,000	12/7/94	4/13/95	4,985,000
Atascadero Committee for Education, Inc.	Adult Day Care -DD	Atascadero	155,000	2/7/95	Cancelled	
Watsonville Community Hospital, Inc.	Hospital	Watsonville	20,000,000	2/16/95	5/3/95	20,000,000
Clinicas del Camino Real (dba Saticoy Family Health Center) (Corp)	Clinic - PC	Saticoy	7,226,198	3/28/95	5/24/95	7,225,000
Airport Marina Counseling Services, Inc.	Clinic - MH	Westchester	735,000	4/6/95	9/27/95	735,000
Fresno Dialysis Clinic, Inc.	Dialysis Clinic	Fresno	3,440,000	4/5/95		
San Geronio Pass Mem Hospital District	District Hospital	Banning	8,565,000	4/5/95	5/25/95	8,565,000
No. County Health Center (dba San Marcos Comm. Health Center) (Corp)	Clinic - PC	San Marcos	5,500,000	5/26/95		
California Autism Foundation, Inc.	Group Home - DD/MD	Richmond	4,700,000	5/26/95	11/8/95	4,700,000
FACT Retirement Services (dba Vista Del Monte) (Corp.)	Multilevel	Santa Barbara	16,805,000	5/26/95		
Exceptional Children's Foundation (Corp)	Group Home - DD	Los Angeles	2,990,000	5/26/95	9/27/95	2,990,000
Porterville Family Health Center, Inc.	Clinic - PC	Porterville	4,280,000	5/30/95	11/21/95	2,880,000
Family Health Foundation of Alviso (Corp)	Clinic - PC	Alviso	5,000,000	5/30/95	8/31/95	5,000,000
Asian Health Services, Inc.	Clinic - PC	Oakland	6,524,823	8/18/95	11/21/95	6,500,000
Mark Twain Health Care District	District Hospital	San Andreas	10,950,000	8/18/95		
TOTAL			\$146,321,021			\$105,660,000

Exhibit 7
Health Facilities Construction Loan Insurance Fund (HFCLIF) Balance
June 1990 through June 1995

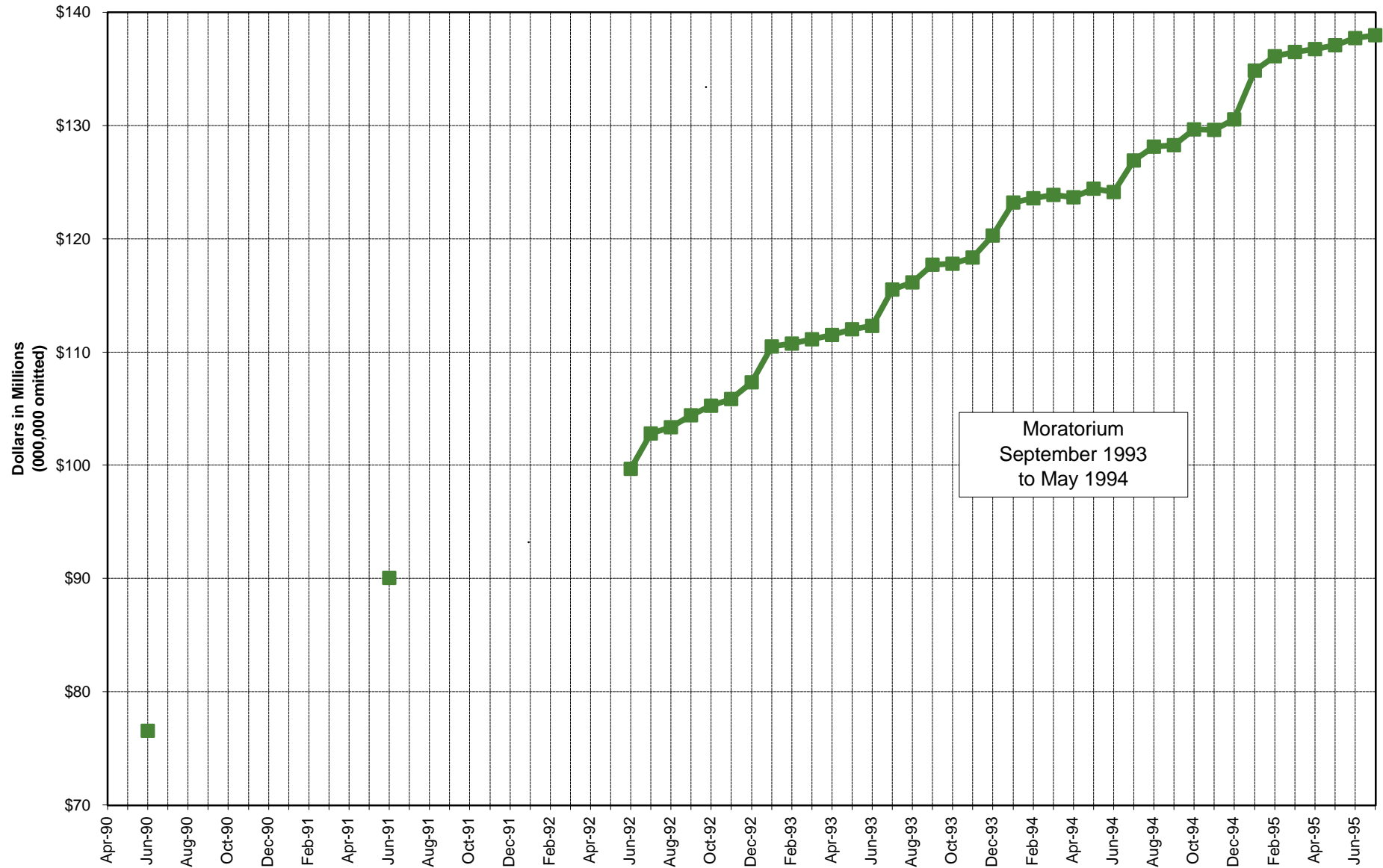


EXHIBIT 8

**California Medical Service Study
Areas Ranked "Critical" for
Medical Underservedness 1995**

Legend:

- Rural
- Urban

Miles

0 50 100

Office of Statewide Health Planning and Development 10/95

EXHIBIT 8

**California Medical Service Study
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Miles


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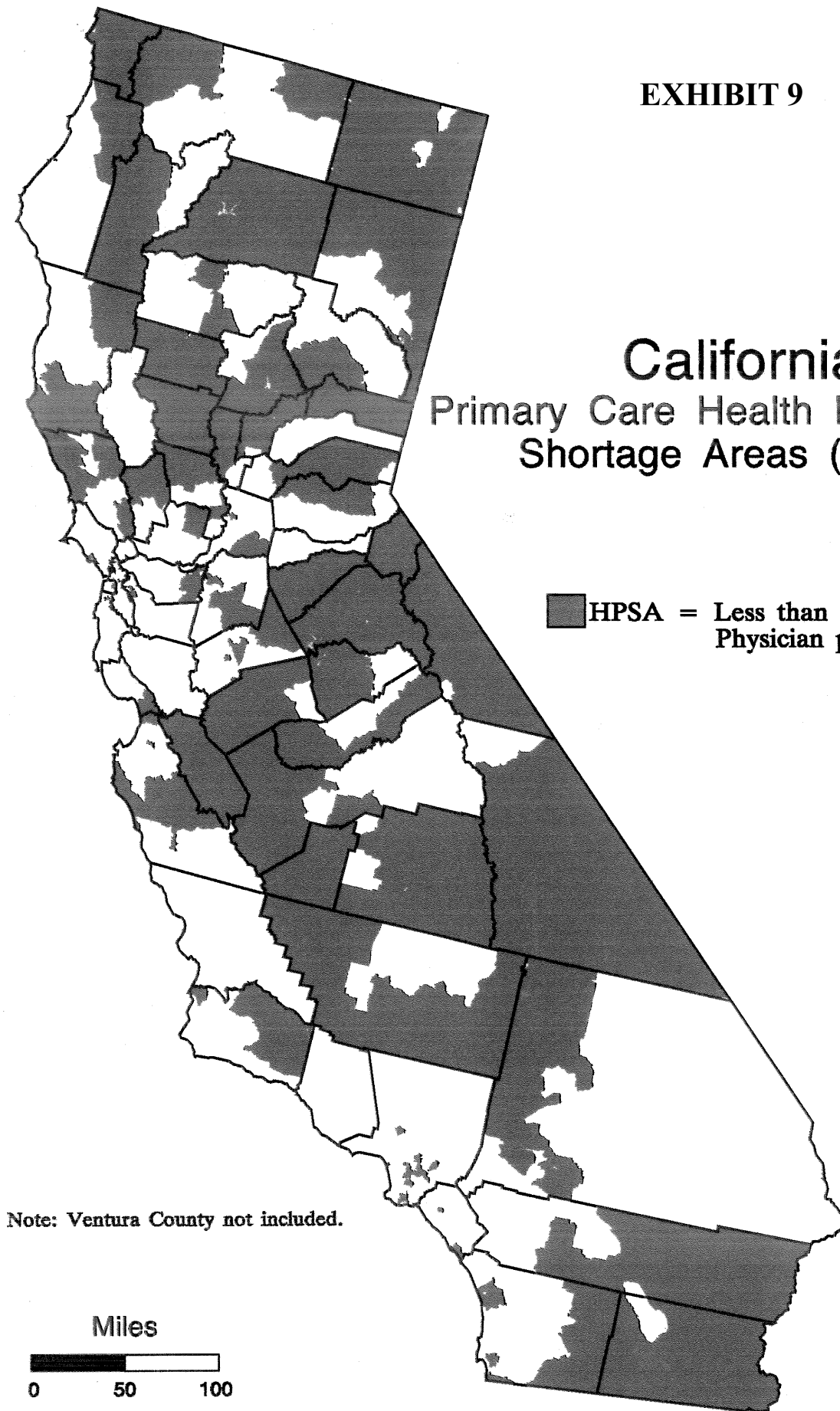
Office of Statewide Health Planning and Development 10/95

EXHIBIT 9

California

Primary Care Health Professional Shortage Areas (HPSA)

 HPSA = Less than one Primary Care Physician per 3,500 persons



Note: Ventura County not included.

Miles



OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT**CAL-MORTGAGE LOAN INSURANCE DIVISION**

818 K Street, Suite 210
Sacramento, California 95814
(916) 324-9957 FAX (916) 327-5688



March 14, 1996

Cal-Mortgage Insured Borrower
State of California

Re: **Draft 1995 Cal-Mortgage State Plan**

Dear Borrower:

The Cal-Mortgage Loan Insurance Division (Cal-Mortgage) of the Office of Statewide Health Planning and Development (OSHPD) has completed its Draft 1995 Cal-Mortgage State Plan (Draft Plan). The Draft Plan is now available for public review and comment. You may obtain a copy of the Draft Plan by completing and sending the attached request form to Cal-Mortgage.

The Draft Plan is an update to the 1992 Cal-Mortgage State Plan. The purpose of the Draft Plan is to provide the basis upon which OSHPD can assess projects which apply for loan insurance and to focus the Cal-Mortgage Loan Insurance Program (Program) on the priority needs of California's health care delivery system.

Written and oral comments on the Draft Plan will be received at public meetings of the Cal-Mortgage Advisory Loan Insurance Committee and the California Health Policy and Data Advisory Commission. All persons or organizations who plan to present comments are requested to provide one written copy of their comments at the time of the meeting. The meeting times and locations are as follows:

April 10, 1996 Cal-Mortgage Advisory Loan Insurance Committee

10:30 a.m. Los Angeles Airport Hilton and Towers
5711 West Century Boulevard
Los Angeles, California
(310) 410-4000

April 11, 1996 California Health Policy and Data Advisory Commission

10:00 a.m. Clarion Hotel - San Francisco Airport
401 East Millbrae Avenue
Millbrae, California
(415) 692-6363

Additionally, comments on the Draft Plan may be sent to Cal-Mortgage by 5:00 p.m., Tuesday, April 30, 1996, at the following address:

March 14, 1996
Page 2

Tacia Carroll
Cal-Mortgage Loan Insurance Division
818 K Street, Suite 210
Sacramento, California 95814

After oral and written comments are reviewed, a final Cal-Mortgage State Plan will be prepared. The final Plan also will contain updated references to the Health and Safety Code Sections.

You also may obtain a copy of the final Cal-Mortgage State Plan by checking the appropriate box and returning this form to Cal-Mortgage. If you need further information or have questions, please contact Tacia Carroll at (916) 327-1991.

Sincerely,

Dennis T. Fenwick, J.D.
Deputy Director

➤ *Mail or FAX to:* *Cal-Mortgage Program, 818 K Street, Suite 210, Sacramento, CA 95814*
 FAX (916) 445-2837 or 327-5688

- ☐ Please send a copy of the "DRAFT" Cal-Mortgage State Plan.
- ☐ Please send a copy of the "FINAL" Cal-Mortgage State Plan.

SEND TO: _____

Thank you for your interest in the Cal-Mortgage Program.

Exhibit 11
Mailing List of Draft 1995 Cal-Mortgage State Plan
Cal-Mortgage Borrowers

Health Facility	Address	Facility Contact	Title
AGRICULTURAL WRKRS.HLTH.CTR.	P.O. Box 779 Stockton, California 95201	Michael H. Kirkpatrick Community Medical Centers, Inc.	
AIRPORT MARINA COUNSELING SERVICE	7891 La Tijera Boulevard Westchester, California 90045	Frances Cuciti	Executive Director
ALDERSLY, INC.	326 Mission Avenue San Rafael, California 94901	Joanne Maxwell	Administrator
ALTA MED HEALTH SERVICES	500 Citadel Drive, Suite 490 Commerce, California 90040	Jenny Rodriguez	Vice President Finance
ASIAN COMMUNITY CENTER	7801 Rush River Drive Sacramento, California 95831	Dr. V. Okamoto	
ASIAN COMMUNITY NURSING HOME	7801 Rush River Drive Sacramento, California 95831	Linda S. WahlBaker	
ATHERTON BAPTIST HOMES	214 South Atlantic Boulevard Alhambra, California 91801	Dr. Tandy Sullivan	
AVENUES TO MENTAL HEALTH	438 North White Road San Jose, California 95127	Glen Robertson	President/CEO
BEACON HOUSE ASSN. OF SAN PEDRO	1003 South Beacon Street San Pedro, California 90731	Mr. John McCann	Board President
BECOMING INDEPENDENT, INC.	1425 Corporate Center Parkway Santa Rosa, California 95407	John McCue	
CALIFORNIA AUTISM FOUNDATION, INC.	4075 Lakeside Drive Richmond, California 94806	John Clay	Chief Executive Officer
CANYON VILLAS RET. COMM.	4282 Balboa Avenue San Diego, California 92117	Edsel Hughes	Administrator
CENTRAL VALLEY INDIAN HEALTH	20 North DeWitt Clovis, California 93612	Jennifer Diaz	
CLARE FOUNDATION, INC.	1871 9th Street Santa Monica, California 90404	Carolyn Carson	Administrative Director
CLINICAS DE SALUD/PUEBLO	1166 K Street, P.O Box 1279 Brawley, California 92227	Louis P. Lerma	Executive Director
CLINICAS DE SALUD/SALINAS	950 Circle Drive Salinas, California 93905	Carlos Garcia	
CLINICAS DEL CAMINO REAL	6633 Telephone Road, Suite 200 Ventura, California 93007	Roberto Juarez	Chief Executive Officer
DRUG ABUSE ALTERNATIVES CTR.	2403 Professional Drive, Suite 101 Santa Rosa, California 95409	Marcia Rhode	
EASTFIELD MING QUONG	251 Llewellyn Avenue Campbell, California 95008	Rick Williams	
EHF-SAN FRANCISCO TOWERS	Post Office Box 1027 Lafayette, California 94549	M.E. McPherson	President

Exhibit 11
Mailing List of Draft 1995 Cal-Mortgage State Plan
Cal-Mortgage Borrowers

EL PROYECTO DEL BARRIO	8902 Woodman Avenue Arleta, California 91331	Corinne Sanchez, Esq.	President/CEO
ESKATON PROPERTIES	5105 Manzanita Avenue Carmichael, California 95608	Todd S. Murch	
GOLDEN VALLEY HEALTH CENTERS	737 West Childs Avenue Merced, California 95340	Michael Sullivan	Executive Director
HENRY MAYO NEWHALL MEM. HOSP.	23845 McBean Parkway Valencia, California 91355	David R. Tumilty	
HERMANDAD MEXICANA NACIONAL, INC.	11559 Sherman Way North Hollywood, California 91605	Humberto N. Corona	Executive Director
HORIZON SERVICES, INC.	2595 Depot Road Hayward, California 94545-2341	Karen J. Andrews	Finance Director
HUMBOLDT OPEN DOOR CLINIC	770 10th Street Arcata, California 95521	Herrmann Spetzler	Executive Director
INTERIM, INC.	Post Office Box 3222 Monterey, California 93942	Barbara Mitchell	
JEFFREY FOUNDATION	5470 West Washington Boulevard Los Angeles, California 90016	Alyce Keller Morris	President & Founder
KEIRO NURSING HOME	325 South Boyle Avenue Los Angeles, California 90033	Shawn Miyake	
LINN HOUSE (Aids Healthcare Foundation)	6255 West Sunset Boulevard, 16th Fl. Los Angeles, California 90028	Cesar Portillo	
LOS MEDANOS COMM. HOSPITAL	500 Tamal Plaza, Suite 527 Corte Madera, California 94925	John Connolly, IV	John Connolly IV & Company
LYTTON GARDENS	437 Webster Street Palo Alto, California 94301	Vera T. Goupille	Chief Executive Officer
THE MEADOWS OF NAPA VALLEY	1800 Atrium Parkway Napa, California 94559	Robert H. Behan	Controller
MIDVALLEY ALCOHOL ED.CTR.INC	Post Office Box 5453 El Monte, California 91734	Beverly A. Miller	Executive Director
MIRAMONTE MENTAL HLTH. SVCS.	206 California Avenue Palo Alto, California 94306	Lynn Farr	Executive Director
NORTHCOUNTRY CLINIC	P.O. Box 4599 Arcata, California 95518	Gail Nickerson	
NORTH COUNTY HEALTH SERVICES, INC.	348 Ranchero Drive, Suite 118 San Marcos, California 92069	Jack E. Johns	
ONLOK, INC.	1333 Bush Street San Francisco, California 94109	Sue Wong	
OROVILLE HOSPITAL	2627 Olive Highway Oroville, California 95966	Jo L. Dilbeck	Chief Financial Officer

Exhibit 11
Mailing List of Draft 1995 Cal-Mortgage State Plan
Cal-Mortgage Borrowers

PACIFIC CLINICS	909 South Fair Oaks Avenue Pasadena, California 91105	Wayne B. Soucy	
PACIFIC HOMES	21021 Ventura Boulevard, Suite 400 Woodland Hills, California 91364	Roy S. Haugen	
PEG TAYLOR CENTER	124 Parmac Road Chico, California 95926	Diane Cooper	
QUEEN OF ANGELS/HOLLY. PRES.	1300 North Vermont Avenue Los Angeles, California 90027	Bo Lee	Controller
REDWOOD TERRACE	411 South Ivy Street Escondido, California 92025	Robin Jensen	Chief Financial Officer
ROBERT F. KENNEDY MED. CTR.	4500 West 116 Street Hawthorne, California 90250	Allen Guirguis	Executive Vice President/CFO
SAN BENITO HLTH. FOUNDATION	351 Felice Drive Hollister, California 95023	Michelle Yamaka	
SAN GORGONIO MEMORIAL HOSP.	600 North Highland Springs Avenue Banning, California 92220	Kay Lang	
SAN JOAQUIN HEALTH CENTER	21890 Colorado Avenue San Joaquin, California 93660	Ben Cordova	Executive Director
SENECA CENTER	2275 Arlington Drive San Leandro, California 94578	Katherine West	Chief Financial Officer
SEQUOIA COMM. HLTH. FNDTN.	2729 South Elm Avenue Fresno, California 93706	Laurie Primavera	
ST. LUKE's HOSPITAL	3555 Cesar Chavez Street San Francisco, California 94110	Karen Everhart	Chief Financial Officer
VALLEYCARE HEALTH SYSTEMS	5565 West Las Positas Blvd., Ste. 300 Pleasanton, California 94588	Judith Dumont	Controller
VILLA GARDENS - SERIES A	301 North Lake Avenue, Suite 310 Pasadena, California 91101-4108	Harvey A. Marsh	F.A.C.T. Retirement Services

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT**CAL-MORTGAGE LOAN INSURANCE DIVISION**

818 K Street, Suite 210
Sacramento, California 95814
(916) 324-9957 FAX (916) 327-5688



March 14, 1996

Re: **Draft 1995 Cal-Mortgage State Plan**

Dear Acquaintance of the Cal-Mortgage Program:

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Written and oral comments on the Draft Plan will be received at public meetings of the Cal-Mortgage Advisory Loan Insurance Committee and of the California Health Policy and Data Advisory Commission. All persons or organizations who plan to present comments are requested to provide one written copy of their comments at the time of the meeting. The meeting times and locations are as follows:

April 10, 1996 10:30 a.m.	<u>Cal-Mortgage Advisory Loan Insurance Committee</u> Los Angeles Airport Hilton and Towers 5711 West Century Boulevard Los Angeles, California (310) 410-4000
April 11, 1996 10:00 a.m.	<u>California Health Policy and Data Advisory Commission</u> Clarion Hotel - San Francisco Airport 401 East Millbrae Avenue Millbrae, California (415) 692-6363

Additionally, comments on the Draft Plan may be sent to Cal-Mortgage by 5:00 p.m., Tuesday, April 30, 1996, at the following address:

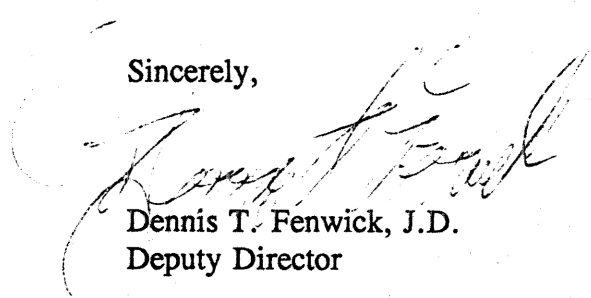
Tacia Carroll
Cal-Mortgage Loan Insurance Division
818 K Street, Suite 210
Sacramento, California 95814

March 14, 1996

Page 2

After oral and written comments are reviewed, a final Cal-Mortgage State Plan will be prepared. The final Plan also will contain updated references to the Health and Safety Code sections. If you need further information or have questions, please contact Tacia Carroll at (916) 327-1991.

Sincerely,

A handwritten signature in dark ink, appearing to read "Dennis T. Fenwick", is written over a faint circular stamp. The signature is fluid and cursive.

Dennis T. Fenwick, J.D.
Deputy Director

Enclosure

Exhibit 13
General Mailing List of Draft 1995 Cal-Mortgage State Plan

NAME	TITLE	COMPANY	ADDRESS	CITY	STATE	ZIP
Andrew Mecca	Director	Dept. of Alcohol and Drug Program	1700 K Street	Sacramento	CA	95814-4037
Bill Lofton		Lofton, DeLancie & Nelson	505 Montgomery St., Suite 1550	San Francisco	CA	94111
Bill Pomeranz		Pomeranz Associates	220 Montgomery Street, Suite 1208	San Francisco	CA	94104
Brian Quint		Jones Hall Hill & White	4 Embarcadero Center, Suite 1950	San Francisco	CA	94111
Bruce Fairbanks, CPA		Healthcare Financial Consultants	1855 Sacramento, #12	San Francisco	CA	94109
Bruce Saltzer		Assoc. of Cal. Mental Hlth Agencies	909 S. Fair Oaks Ave.	Pasadena	CA	91105
C. Duane Dauner	President	Cal. Assoc. of Hospital Health Systems	1201 K St., Ste. 900	Sacramento	CA	95814
Cara J. Bowers		Standard & Poor's	25 Broadway, 20th Floor	New York	NY	10004
Dean R. Shetler	President/Chief Executive Officer	Cal. Assoc. of Homes and Services for the Aging	7311 Greenhaven Dr., Ste. 175	Sacramento	CA	95831
Dennis G. Amundson	Director	Dept. of Developmental Services	1600 Ninth Street	Sacramento	CA	95814
Dennis Rognerud		Ziegler Securities	1850 Mt. Diablo Blvd., Suite 370	Walnut Creek	CA	94596
Derrell Kelch		CAHSA	7311 Greenhaven Drive, Suite 175	Sacramento	CA	95831
Eloise Anderson	Director	Dept. of Social Services	744 P Street	Sacramento	CA	95814
Erma J. Patterson	President	Cal. Assoc. of Drug & Alcohol Program Executives	930 West Compton Blvd.	Compton	CA	90220
Eugene Lokey		California Planners & Consultants	1029 K St., Ste. 48	Sacramento	CA	95814-3812
Francisco L. Castillon	Executive Director	Cal. Health Federation	2260 Towne Circle, Ste. 103	Sacramento	CA	95825
Fred Johnson		OSHPD, Primary Care Resources/ Rural Health Systems Dev.	1600 9th St., Room 440	Sacramento	CA	95814
Fredric J. Prager	Managing Director	Prager, McCarthy & Sealy	One Maritime Plaza, Suite 1000	San Francisco	CA	94111
Gary Hicks		G.L. Hicks Financial	2260 Park Towne Circle, Suite 400	Sacramento	CA	95825
Gayle H. Ensign	President	Cal. Assoc. of Catholic Hospitals	1121 L St., Ste. 409	Sacramento	CA	95814
Gerald J. McGovern		Brown & Wood	555 California St., Suite 5060	San Francisco	CA	94104
Gerald P. Burke		Ca Statewide Comm Devpt Auty	7901 Stoneridge Dr., Suite 225	Pleasanton	CA	94588
Gilbert Servin Associates			4969 East McKinley, #207	Fresno	CA	93727
Hector Flores, M.D.		White Memorial Medical Center	1720 Cesar E. Chavez Avenue	Los Angeles	CA	90033
Jack Burgiss		Catholic Healthcare West	1700 Montgomery St., Ste. 300	San Francisco	CA	94111
Jan Speelman	Operations Manager	Cal. Assoc. of Rehabilitation Facilities	1121 L St., Ste. 103	Sacramento	CA	95814
Jana Wesly		Wesley, Inc.	980 Ninth St., 16th Floor	Sacramento	CA	95814-2736
Jay Harris	Senior Manager	BDC Advisors	One Market, Steuart St. Tower, 12th F	San Francisco	CA	94105
Jim Lott	President	Hospital Council of San Diego and Imperial Counties	2333 Camino del Rio South, Ste. 200	San Diego	CA	92108
Joan Annett		Ziegler Securities	1850 Mt. Diablo Blvd., Suite 370	Walnut Creek	CA	94596
John B. Irons, Jr.		Northern California Presbyterian Homes, Inc.	1525 Post Street	San Francisco	CA	94109
John Meyers		Orrick, Herrington & Sutcliffe	400 Capitol Mall, Suite 3000	Sacramento	CA	95814
John Q. Landers		Morgan Stanley & Co.	555 California St.	San Francisco	CA	94104
John Woodward		Paine Webber	100 California St.	San Francisco	CA	94111
Joyce Iseri		Cal. Assoc. of Children's Homes	1431 3rd St.	Sacramento	CA	95814
Keith S. Grundy		Shattuck Hammond Partners	601 California St.	San Francisco	CA	94108
Kimberly Belshe	Director	Dept. of Health Services	P.O. Box 932732	Sacramento	CA	94273
King Gee		Dept. of Social Services Comm. Care Lic., Continuing Care Contracts	744 P St., MS 11-90	Sacramento	CA	95814

Exhibit 13
General Mailing List of Draft 1995 Cal-Mortgage State Plan

NAME	TITLE	COMPANY	ADDRESS	CITY	STATE	ZIP
Lai Louie		Office of State Treasurer	915 Capitol Mall, #110	Sacramento	CA	95814
Leslie Lava		Leslie Lava, Esquire	425 California St., Suite 1100	San Francisco	CA	94104
Linda Horn	Administrator	Delta Memorial Hospital	3901 Lone Tree Way	Antioch	CA	94509
Lois Firth		Arthur D. Little, Inc.	Acorn Park	Cambridge	MS	02140-2390
Marc Lowry		CAHHS	P.O. Box 1100	Sacramento	CA	95812-1100
Margaret Lamb	Deputy Director	Dept. of Rehabilitation Comm. Svcs. Div., 2nd Floor	P.O. Box 944222	Sacramento	CA	94244
Marianne Bennett	Chief Executive Officer	California Primary Care Association	1127 11th St., Ste. 310	Sacramento	CA	95814
Mary Pittman, Dr. PH	President/Chief Executive Officer	Cal. Assoc. of Public Hospitals	2000 Center St., Ste. 308	Berkeley	CA	94704
Maximiliano Cuevas	President	Cal. Hispanic Health Care Association	650 Zediker Ave.	Parlier	CA	93648
Michael Gallagher	President	Hospital Council of Northern and Central CA	7901 Stoneridge Dr., Ste. 500	Pleasanton	CA	94588
Mike Rodrian, Chief		Dept. of Health Services Licensing and Certification	P.O. Box 942732	Sacramento	CA	94234
Mort Raphael		244 California Street, Suite 501		San Francisco	CA	94111
Richard Hoisington	Senior Architect	OSHPD, DFDF	1600 9th Street, Room 410	Sacramento	CA	95814
Robert L. Francoeur		Francoeur and Co., Inc.	1567 Westholme Ave., #4A	Los Angeles	CA	90024
Robert P. Martinez	Director	Dept. of Aging	1600 K Street	Sacramento	CA	95814
Ron Youngren	President/Chief Executive Officer	Assoc. of California Hospital Districts	1100 11th St., Ste. 210	Sacramento	CA	95814
Roy Nelson		Altura Nelson & Co., Inc.	18 Crow Canyon Court, Suite 350	San Ramon	CA	94583
Rusty Selix	Executive Director	Cal. Assoc. for Mental Health	1100 11th St., Ste. 305	Sacramento	CA	95814
Shelleyanne W. L. Chang		Dept. of Justice Office of the Atty. General	P.O. Box 944255	Sacramento	CA	94244
Stan Cubanski		Dept. of Finance	915 L St., 9th Floor	Sacramento	CA	95814
Stanley Cubanski	Program Budget Manager	Department of Health and Welfare	915 L St., 9th Floor	Sacramento	CA	95814
Stephen L. Taber		Hanson, Bridgett, Marcus, Vlahos & Rudy	333 Market St., Suite 2300	San Francisco	CA	94105
Stephen W. Mayberg	Director	Dept. of Mental Health	1600 9th Street	Sacramento	CA	95814
Steve Gamble	President	Hospital Council of Southern California	201 N. Figueroa St., Ste. 400	Los Angeles	CA	90012
Susan Blacksher	Executive Director	Cal. Assoc. of Alcohol Recovery Homes	650 Howe Ave., Ste. 1060	Sacramento	CA	95825
Susan Maddox	Executive Director	California Children's Hospital Association	550 W. C St., Ste. 630	San Diego	CA	92116
Terrence Partington	Deputy Director	Office of the Treasurer, C.H.F.F.A.	915 Capitol Mall, Ste. 590	Sacramento	CA	95814
Tessie Guillermo	Executive Director	Asian Pacific Islander American Health Forum	116 New Montgomery, Ste. 531	San Francisco	CA	94105
Thelma Battieste	President	Society of California Care Home Operators, Inc.	1033 West Lexington Ave.	Pomona	CA	91766
Thomas Kubasak		Cal. Assoc. Svcs. for Children	301 P St., #32	Sacramento	CA	95814
Vic Biswell		Association of California Hosp Dists	1100 11th St., Suite 205	Sacramento	CA	95814
Walter G. Bausman			485 17th St., Suite 405	Costa Mesa	CA	92627
Wen Hong	Executive Director	CHFFA	915 Capitol Mall, Ste. 590	Sacramento	CA	95814
William B. Hanlon, III		Shattuck Hammond Partners	601 California St., Suite 2001	San Francisco	CA	94108
William D. Hendrickson		Hendrickson Healthcare Consulting	1700 Solano Ave., Suite G	Berkeley	CA	94707

DEPARTMENT OF DEVELOPMENTAL SERVICES

1600 - 9TH STREET
SACRAMENTO, CA 95814
TDD 654-2054 (For the Hearing Impaired)
(916) 654-1963



Office of Statewide Health
Planning and Development

APR 08 1996

Cal-Mortgage
Sacramento, CA

Ms. Tacia Carroll
Cal-Mortgage Loan Insurance Division
818 K Street, Suite 210
Sacramento, California 95814

Re. Draft 1995 Cal-Mortgage State Plan

Dear Ms. Carroll:

Thank you very much for the opportunity of reviewing your organization's 1995 State Plan. The Department of Developmental Services (Department) is very pleased to note the following components of the Plan which favorably affect the consumers that we serve:

- The priority of insuring loans to develop services in areas where the need for health care remains unmet is important to our Department because adequate pre-natal and infant health care is a vital part of our prevention program. Since many of our adult consumers live in these same areas, the development of needed health services is also very important. (p.13)
- We approve of your plan to change procedures to better accommodate small facility applications. Since most of the facilities that serve persons with developmental disabilities will be submitting applications for less than \$5,000,000, these changes should be most welcome. (p.22)
- Finally, we note that since 1992 you have guaranteed 10 loans totaling over \$37,000,000 to group homes. The group home is the most likely type of facility serving our consumers that will be submitting applications for funds from your program. We therefore strongly urge you to continue to make your program friendly and accessible to those facilities. (Ex.3 p.2)

Sincerely,

A handwritten signature in black ink, appearing to read 'Doug Van Meter'.

DOUG VAN METER
Deputy Director
Residential Services Division

"Building Partnerships, Supporting Choices"



April 26, 1996

Tacia Carroll
Cal-Mortgage Loan Insurance Division
818 K Street, Suite 210
Sacramento, California 95814

Office of Statewide Health
Planning and Development

APR 30 1996

Cal-Mortgage
Sacramento, CA

RE: Draft 1995 Cal-Mortgage State Plan

7311 Greenhaven Drive

Suite 175

Sacramento

CA 95831

916-392-5111

Fax 916-428-4250

Barbara E. Hood
President and CEO

The California Association of Homes and Services for the Aging (CAHSA) welcomes the opportunity to review and comment on the proposed draft to revise the Cal-Mortgage State Plan.

CAHSA is generally pleased with the approach of the revisions to the plan. We particularly applaud the department in making senior projects a priority. Likewise, we are encouraged that the plan recognizes the need to have a balanced portfolio and the role large projects play in achieving that goal. Finally, we are pleased that the department is indicating a preference for a cap of \$40 million rather than an absolute cap on individuals projects.

There are some provisions in the proposed plan that do concern us and we offer the following recommendations for consideration:

- Instead of an absolute prohibition on nonprofits buying owned facilities, we would suggest that both the nonprofit and for-profit entity be in business five or more years.
- Rather than a 60 day requirement to start construction after insurance approval, we would suggest 90 to 120 days as a more reasonable time.
- Change provision that land must be built on land owned by the applicant to land controlled by the applicant
- Instead of prohibition for subordinated debt used as equity, we would suggest that a bona fide related corporation debt with clear subordination to Cal-Mortgage.
- Include provisions that would allow assisted living facilities as viable projects as lesser cost alternatives for providing care.
- Rethink prohibition of loans where board members may benefit from the financing since more and more nonprofit facilities are adding residents to their boards.

Again, we appreciate the opportunity to comment on the proposed plan and strongly urge that our recommendations are considered in any addition revisions. Should you have questions about our comments, please contact me.

Sincerely,

Derrell Kelch
Vice President of Public Policy

OFFICE OF STATEWIDE HEALTH PLANNING AND DEVELOPMENT**CAL-MORTGAGE LOAN INSURANCE DIVISION**

818 K Street, Suite 210

Sacramento, California 95814

(916) 324-9957 FAX (916) 327-5688



June 10, 1996

Mr. Derrell Kelch
Vice President of Public Policy
California Association of Homes
and Services for the Aging
7311 Greenhaven Drive, Suite 175
Sacramento, California 95831

Re: Comments to Draft 1995 Cal-Mortgage State Plan

Dear Mr. Kelch:

I want to thank you for taking the time to review and comment on the draft 1995 Cal-Mortgage State Plan (Plan). We have spent many hours preparing and reviewing the Plan and it is therefore very gratifying to know that CAHSA is generally pleased with our approach.

I also would like to acknowledge the concerns you raise regarding certain provisions contained in the Plan and provide you with some additional information which I hope will help you understand our intent in including these provisions. Following is a short discussion of each of your six recommendations in the order they appear in your letter to us.

- The provision in the Plan to exclude projects which are being sold by for-profit entities to nonprofit entities was intended to address the possibility that a for-profit corporation might attempt to take inappropriate advantage of the program via use of a nonprofit entity. This provision would not necessarily prohibit a nonprofit applicant from acquiring assets from a for-profit entity--such as a multi-level facility purchasing an apartment building to remodel for residential units--provided that the transaction was fair, arms-length, financially feasible, and in the public interest.
- The Office believes that construction should be scheduled to commence within 60 days of loan closing. The purpose of this provision is to assure that the project will be constructed within the parameters of the approved application--extended delays can have a significant effect on the cost and risk of the project. Considering that the loan insurance commitment is typically issued six months before the loan is scheduled to close, it is reasonable to expect construction to commence within 60 days of the loan closing. There is always an opportunity for the borrower to request an extension for compelling reasons.

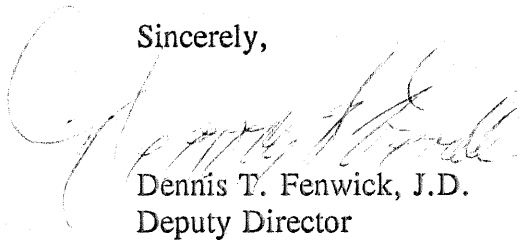
- The requirement that projects must be built on land owned by the applicant reflects the program's need for security to protect the General Fund. There is, as you know, an exception within the Plan which allows insured projects to be on leased land if the land will be leased to the applicant for a long term at reasonable rates, with no restrictions on the property in the event of a default by the borrower. The Office would be reluctant to accept any lower level of control over an asset in which the program has a security interest.
- The provision requiring that contributed equity must be real or personal property or cash, and cannot be borrowed funds, reflects the statutory structure of the program. The risk to the General Fund is moderated when the insured project has contributed its own tangible assets. As you are aware, this is similar to what most lending institutions require. Also, please note that, if more than the minimum contributed equity is needed, OSHPD has allowed a related corporation to lend that additional capital, when it is subordinated to the Cal-Mortgage insured loan.
- Assisted living facilities have become an increasingly important resource in meeting the needs of the frail elderly. Under current law, these facilities are eligible for Cal-Mortgage loan insurance only if they are affiliated with a "health facility," as defined in Health and Safety Code Section 129010. Independent assisted living facilities are, by statute, not eligible for Cal-Mortgage Loan Insurance. While your suggestion may have merit, the Office would be concerned about expanding project eligibility to include facilities that are primarily residential in nature.
- The provision that the program will not insure loans in which the applicant's board members may receive a benefit is intended to avoid conflicts of interest. In administering this provision, we are guided by Section 1090 of the Government Code which applies to district boards, county boards of supervisors and city councils. In our judgement, if a resident board member benefits from a facility construction project or refinancing no more than any other resident, there would generally be no violation of this provision. On the other hand, if the resident board member would receive a significant or direct benefit from the applicant's project, this provision would preclude Cal-Mortgage insurance.

After careful review and consideration of each of your recommendations, OSHPD believes that it would not be prudent to make any changes in the 1995 Plan at this time. However, your comments are helpful and we appreciate your thoughtful review of the draft document.

Mr. Derrell Kelch
June 10, 1996
Page 3

If you have any questions, please contact me at 327-0434.

Sincerely,

A handwritten signature in dark ink, appearing to read "Dennis T. Fenwick". The signature is fluid and cursive, with a large initial "D".

Dennis T. Fenwick, J.D.
Deputy Director

cc: David Werdegar, MD, MPH